

Finance & Administration Committee

Date: November 29, 2016

Attendance: Amy Walen, Jay Arnold, Doreen Marchione (by phone), Kurt Triplett, Tracey Dunlap, Michael Olson, Tom Mikesell, Amy Bolen (for Jessica Clem)

Agenda Item:	Action Items:
1. Preview of December 13 Council Meeting items 2015-2016 budget adjustments, 2017-2018 budget adoption, 2017-2022 CIP adoption. Michael Olson distributed and reviewed <i>Attachment A</i> .	To full Council for adoption at the December 13, 2016 meeting.
2. Fiscal Policy Housekeeping Updates Notes: Michael reviewed changes to Fiscal Policies highlighted in <i>Attachment B</i> . The Committee recommended adopting the changes.	To full Council for adoption at the December 13, 2016 meeting.
3. October Dashboard Reports Notes: Michael discussed highlights. The dashboard text was missing from the Agenda packet and is included with these minutes. <i>Attachment C</i> .	No action for this item.
4. Informational Items Notes: October Sales Tax Report, Investment Report and 3 rd Quarter FMR were available for review. <i>Attachment D</i> .	No action for this item.
5. Additional Discussion <ul style="list-style-type: none">• Regarding landscaping in front of City Hall, City staff are looking into feasibility of replacing the rose garden with a rain garden.• Kurt informed the Committee that there may be some push back from Totem Lake Mall developer regarding impact fees (Park/School) related to the 850 housing units. Committee concurred that developer should pay these fees, with possible consideration of reduction for affordable housing units.	
Upcoming Council Agenda Items: December 13, 2016 <ul style="list-style-type: none">• 2015-2016 Budget Adjustments• 2017-2018 Budget Adoption• 2017-2022 CIP Adoption Next Meeting: December 27 meeting cancelled. Next meeting will be January 31, 2017. Future Topics: <ul style="list-style-type: none">• Conference Room naming for former City Manager (added 5/3/2016). To be discussed after City Hall remodel is complete; suggestion to name a landscape feature rather than a conference room.	

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| <ul style="list-style-type: none">• Washington State Business License Portal (added 7/5/16). Report to Council early next year on feasibility, pros and cons.• Development Fee Study scheduled for 2017 (added 11/29/16) including assessing credit card fees.• PSE long term energy, "Green Direct" (added 11/29/16).• Annual Report on Fire Overtime Strategies (added from 10/27 Budget Study Session follow up). | |
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2015-2016 Final Budget Adjustments

Council Directed/Previously Approved Adjustments –The first category of adjustments includes any additional changes identified by Council and formalizing previously approved actions (fiscal notes, etc.).

- *For example, use of Health Benefits reserves to fund an additional \$500 per person contribution to employee Health Retirement Accounts (HRA). This adjustment requires the transfer of \$135,000 from the Health Benefits Fund, with a subsequent increase in the appropriation in a number of City funds.*

Other Adjustments -The second category of adjustments have been generated since the mid-year adjustments in June and primarily recognize new revenue from grants and other sources.

- For example, recognizing reimbursement from Washington State for Training overtime incurred in Police and Fire.

Housekeeping Items –The third category includes appropriation adjustments needed to adjust budget accounts, fund balances, and correct previous omissions or errors. These changes result in appropriation increases of \$21,313.

- *For example, transfer of funding from the General Fund to the General Capital Projects Fund for professional services related to Fire Station siting*

Fund Type	Current 15-16 Budget	Appropriation Adjustments	Revised 15-16 Budget
General Government:			
General Fund	202,056,951	347,610	202,404,561
Other Operating Funds	32,768,364	39,930	32,808,294
Internal Service Funds	81,317,730	348,425	81,666,155
Non-Operating Funds	155,358,229	407,366	155,765,595
Utilities:			
Water/Sewer	95,410,865	6,680	95,417,545
Surface Water	44,631,864	11,950	44,643,814
Solid Waste	34,292,594	1,600	34,294,194
Total Budget	645,836,597	1,163,561	647,000,158

2017-2018 Final Adoption

Highlights include:

- Council-directed changes from the November 1st and 15th meetings;
- Adjusting Special Revenue fund budgets to account for higher property tax new construction estimates;
- Technical correction to service package funding in the Lodging Tax fund, which should have been available resources forward but was incorrectly posted to 2017-2018 fund balance;
- CIP adjustments related to changes made adopting the final 2017-2022 CIP as noted in the corresponding staff memo; most notably the project scope expansion for Totem Lake Park Development Phase 1; and,
- Adjusting Utility Tax revenue upwards to account for the two percent Surface Water rate increase.

	2017-18 Cost		
	Ongoing	One-time	Total
Preliminary 2017-18 Budget	694,368,439		
General Fund			
<i>Council Directed Actions</i>			
Human Services Option 3	-	172,569	172,569
Human Services Commission	-	70,000	70,000
Streets Seasonal Labor (to Street Fund)	-	150,990	150,990
Communications Staffing	-	92,494	92,494
Transportation Engineering Consultants	-	25,000	25,000
Performance Management Consultant	-	50,000	50,000
Forterra Research Project	-	40,000	40,000
Green Kirkland Funding (to Parks Levy)	-	34,300	34,300
City Council Contingency Addition	-	131,927	131,927
<i>Subtotal Council Directed Action</i>	-	767,280	767,280
Utility Tax RV Adj (from Surface Water)	42,056	-	42,056
Reserves Offset of Council Directed Action	-	(563,665)	(563,665)
Subtotal General Fund	42,056	203,615	245,671
Special Revenue Funds			
Property Tax Adjustment	93,630	-	93,630
Technical Correction to 112 Svc Pkg Funding	80,000	-	80,000
Streets Seasonal Labor (from GF)	-	150,990	150,990
Green Kirkland (from GF)	-	34,300	34,300
Parks Levy Housekeeping	(4,000)	-	(4,000)
Subtotal Special Revenue Funds	80,000	-	80,000
Capital Projects Funds			
CIP Adjustments	-	1,172,700	1,172,700
Subtotal General Capital Projects Fund	-	1,172,700	1,172,700
Utility Funds			
Surface Water Utility Tax Adjustment (to GF)	42,056	-	42,056
Surface Water Capital Projects CIP Adj	-	(350,000)	(350,000)
Subtotal Surface Water Fund	42,056	-	42,056
Final 2017-18 Biennial Budget	695,833,786		

2017-2022 CIP

Transportation

	6-Year Funded CIP	Unfunded Future City Revenues	Unfunded External/New Revenue	Total CIP
Preliminary 2017-2022 Transportation CIP	90,095,200	162,119,600	187,663,500	439,878,300
ST 0006 Annual Street Preservation Program	(750,000)			(750,000)
ST 0006 004 Central Way Street Preservation	214,000			214,000
ST 0006 005 Totem Lake Blvd Roadway Repair	720,000			720,000
NM 0095 124th Avenue NE Sidewalk Improvements	300,000			300,000
NM 0098 Kirkland Avenue Sidewalk Improvements	(300,000)			(300,000)
NM 0115 CKC Emergent Projects Opportunity Fund	200,000			200,000
NM 0118 NE 128th Street/139th Ave NE Non-Motorized Improvements	800,000			800,000
NM 0119 Downtown Pedestrian Access Study	50,000			50,000
NM 0120 108th Ave NE Sidewalk Impr. at Edith Moulton Park	600,000			50,000
TR 0098 NE 132nd St/116th Way NE (I-405) Intersection Improvements	(300)			(300)
TR 0127 NE 132nd Street Roundabout	320,000			320,000
Subtotal Changes to Adopted 2017-2022 Transportation CIP	2,153,700	-	-	1,603,700
Proposed 2017-2022 Transportation CIP	92,248,900	162,119,600	187,663,500	441,482,000

Parks

	6-Year Funded CIP	Unfunded Future City Revenues	Unfunded External/New Revenue	Total CIP
Preliminary 2017-2022 Parks CIP	16,539,000	61,575,000	67,000,000	145,114,000
PK 0119 002 Juanita Beach Park Development Phase 2	(1,308,000)	1,308,000		-
PK 0133 100 Dock/Shoreline Renovations	(150,000)			(150,000)
PK 0133 300 Park Land Acquisition	(540,000)			(540,000)
PK 0134 100 132nd Pk Playfields		712,000		712,000
PK 0139 101 Totem Lake Park Acquisition	550,000	(3,000,000)		(2,450,000)
PK 0139 102 Totem Lake/CKC Land Acquisition	190,000			190,000
PK 0139 200 Totem Lake Master Plan & Development Phase 1 (Expanded)	5,315,225			5,315,225
PK 0139 300 Totem Lake Park Development Phase 2	(2,440,000)	2,440,000		-
PK 0151 Parks Facilities Sinking Fund	958,000			958,000
Subtotal Changes to Adopted 2017-2022 Parks CIP	2,575,225	1,460,000	-	4,035,225
Proposed 2017-2022 Parks CIP	19,114,225	63,035,000	67,000,000	149,149,225

Surface Water

	6-Year Funded CIP	Unfunded CIP	Total CIP
Preliminary 2017-2022 Surface Water CIP	14,552,000	20,079,200	34,631,200
SD 0106 001 CKC Surface Water Drainage at Crestwoods Park Design/Constru	(350,000)		(350,000)
Subtotal Changes to Adopted 2017-2022 Surface Water CIP	(350,000)	-	(350,000)
Proposed 2017-2022 Surface Water CIP	14,202,000	20,079,200	34,281,200

2017-2022 Proposed Capital Improvement Program

	6-Year Funded CIP	Unfunded Future City Revenues	External/New Revenues	Total CIP
Transportation	92,248,900	162,119,600	187,663,500	442,032,000
Parks	19,114,225	63,035,000	67,000,000	149,149,225
Public Safety	18,385,500	369,100	32,560,400	51,315,000
General Government				
Technology	8,727,600	559,000	-	9,286,600
Facilities	2,583,000	-	-	2,583,000
Subtotal	141,059,225	226,082,700	287,223,900	654,365,825
Surface Water Mgmt	14,202,000	20,079,200	-	34,281,200
Water/Sewer	37,860,000	37,472,800	16,456,000	91,788,800
Utilities Subtotal	52,062,000	57,552,000	16,456,000	126,070,000
Grand Total Proposed CIP	193,121,225	283,634,700	303,679,900	780,435,825
Preliminary CIP	188,742,300	282,174,700	303,679,900	774,596,900
Difference	4,378,925	1,460,000	-	5,838,925

RESOLUTION R-XXXX

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND
ADOPTING THE FISCAL POLICIES FOR THE CITY OF KIRKLAND.

WHEREAS, the stewardship of public funds is one of the greatest responsibilities given to the officials and managers of the City of Kirkland; and

WHEREAS, the establishment of and maintenance of wise fiscal policies enables City officials to protect public interests and ensure public trust; and

WHEREAS, most of the City of Kirkland's Fiscal Policies represent long-standing principles, traditions, and practices that have guided the City management in the past and are intended to ensure that the City is financially able to meet its immediate and long-term objectives; and

WHEREAS, the City of Kirkland's Fiscal Policies need to be amended to reflect actual practice in reserve replenishment and changes related to the most recently adopted Investment Policy.

NOW, THEREFORE, be it resolved by the City Council of the City of Kirkland as follows:

Section 1. The City Council hereby adopts the City of Kirkland's Fiscal Policies a copy of which is attached hereto and by this reference incorporated herein.

Section 2. The City of Kirkland's Fiscal Policies are intended to provide general fiscal guidelines and to provide sound direction in the management of the City's financial affairs.

Passed by majority vote of the Kirkland City Council in open meeting this 13th day of December, 2016.

Signed in authentication thereof this 13th day of December, 2016.

MAYOR

Attest:

City Clerk

CITY OF KIRKLAND***FISCAL POLICIES*****BACKGROUND AND PURPOSE**

The stewardship of public funds is one of the greatest responsibilities given to the officials and managers of the City of Kirkland. Therefore, the establishment and maintenance of wise fiscal policies enables city officials to protect public interests and ensure public trust.

This document incorporates past financial practices in defining the current policies to be used by the City to meet its obligations and operate in a financially prudent manner. These policies have been established to provide general fiscal guidelines and are intended to provide sound direction in the management of the City's financial affairs.

OPERATING BUDGET POLICIES

The municipal budget is the central financial planning document that embodies all operating revenue and expenditure decisions. It establishes the level of services to be provided by each department within the confines of anticipated municipal revenues.

- The City Council will adopt a biennial budget which will reflect estimated revenues and expenditures for the ensuing two years. A mid-biennium review and update will take place as prescribed by law during the first year of the biennium.
- The City Council will establish municipal service levels and priorities for the ensuing two years prior to and during the development of the preliminary budget.
- The City Manager shall incorporate the Council's priorities in the formulation of the preliminary and final budget proposal.
- Adequate maintenance and replacement of the City's capital plant and equipment will be provided for in the biennial budget.
- The biennial budget will be balanced with resources in that biennium.

REVENUE AND EXPENDITURE POLICIES

Annual revenues are conservatively estimated as a basis for preparation of the biennial budget and City service programs.

Expenditures approved by the City Council in the biennial budget define the City's spending limits for the upcoming biennium. Beyond legal requirements, the City will maintain an operating philosophy of cost control and responsible financial management.

- The City will maintain revenue and expenditure categories according to state statute and administrative regulation.
- Current revenues will be sufficient to support current expenditures.
- All revenue forecasts will be performed utilizing accepted analytical techniques.
- All fees for services shall be reviewed and adjusted (where necessary) at least every three years to ensure that rates are equitable and cover the total cost of service, or that percentage of total service cost deemed appropriate by the City.

- Revenues of a limited or indefinite term will be used for capital projects or one-time operating expenditures to ensure that no ongoing service program is lost when such revenues are reduced or discontinued.
- Grant applications to fund new service programs with state or federal funds will be reviewed by the City, as they become available, with due consideration being given to whether locally generated revenues will be required to support these programs when outside funding is no longer available.
- The City of Kirkland will establish and maintain Special Revenue Funds which will be used to account for proceeds from a substantial restricted or committed revenue source used to finance designated activities which are required by statute, ordinance, resolution or executive order.
- Biennial expenditures will be maintained within the limitations of biennial revenues. The City will not use short-term borrowing to finance current operating needs without full financial analysis and prior approval of the City Council.
- In order to ensure the continuity of services, the City will budget no more sales tax revenue than was received in the prior year as a hedge against possible future economic events.
- Net Interest income revenue will be used to finance one-time capital or time-limited goods or services including debt service on councilmanic bond issues.
- All authorized positions will be budgeted for a full year (or biennium) unless specifically designated by the City Council as a partial-year position.
- In the event that budget reductions are needed in order to balance revenues and expenditures, the City Council will provide policy direction to staff as to the priority order and combination for using the following strategies:
 - Raise revenue
 - Reduce expenditures
 - Use reserves
- The use of reserves to balance the budget will only be used to address short term temporary revenue shortfalls and expenditure increases.
- The biennial budget will be formally amended by the City Council as needed to acknowledge unforeseen expenditures. All requests for funding will be analyzed by the Finance and Administration Department. The Council will be provided with a discussion of the legality and/or policy basis of the expenditure, the recommended funding source, an analysis of the fiscal impact and a review of all reserves and previously approved amendments since budget adoption.
- A request will not be approved at the same meeting at which it is introduced unless it is deemed an urgent community issue by a supermajority vote of the City Council. Requests made to Council outside of the formal budget adjustment process will be analyzed and presented to the Council for approval at the next regular Council meeting that allows sufficient time for staff to prepare an analysis and recommendation.

ENTERPRISE FUND POLICIES

The City will establish enterprise funds for City services when 1) the intent of the City is that all costs of providing the service should be financed primarily through user charges; and/or 2) the City Council determines that it is appropriate to conduct a periodic review of net income for capital maintenance, accountability, or other public policy purposes.

- Enterprise funds will be established for City-operated utility services.

- Enterprise fund expenditures will be established at a level sufficient to properly maintain the fund's infrastructure and provide for necessary capital development.
- Each enterprise fund will maintain an adequate rate structure to cover the costs of all operations, including maintenance, depreciation, capital and debt service requirements, reserves (as established by fiscal policy or bond covenant), and any other cost deemed necessary.
- Rates may be offset from available fund cash after requirements are met for cash flow and scheduled reserve contributions.
- Enterprise fund services will establish and maintain reserves for general contingency and capital purposes consistent with those maintained for general governmental services.
- Revenue bonds shall be issued only when projected operating revenues are insufficient for the enterprise's capital financing needs.
- The City will insure that net operating revenues of the enterprise constitute a minimum of 1.5 times the annual debt service requirements.
- The City will limit the maturities of all utility revenue bond issues to 30 years or less.

CASH MANAGEMENT AND INVESTMENT POLICIES

Careful financial control of the City's daily operations is an important part of Kirkland's overall fiscal management program. Achieving adequate cash management and investment control requires sound financial planning to ensure that sufficient revenues are available to meet the current expenditures of any one operating period. Once steps are taken to ensure that the City maintains a protected cash position in its daily operations, it is to the municipality's advantage to prudently invest idle funds until such time as they are required to make expenditures.

- The City's idle cash will be invested on a continuous basis in accordance with the City's adopted investment policies.
- The City will maintain a formal investment policy which is reviewed and endorsed by state and/or national professional organizations. The complete policy can be found in the appendix of this document.
- The City will invest all funds (in excess of current requirements) in a manner that is in conformance with federal, state and other legal requirements based upon the following order of priority: 1) safety~~legality~~; 2) liquidity; ~~3) safety~~; and 3) yield~~return on investment~~.
- Investments with City funds shall not be made for purposes of speculation.
- The City is prohibited from investing in derivative financial instruments for the City's managed investment portfolio.
- Proper security measures will be taken to safeguard investments. The City's designated banking institution will provide adequate collateral to insure City funds.
- The City's investment portfolio will be reviewed every three years by a qualified portfolio valuation service to assess the portfolio's degree of risk and compliance with the adopted investment policies.
- An analysis of the City's cash position will be prepared at regular intervals throughout the fiscal year.
- The City Council will be provided with quarterly reports on the City's investment strategy and performance.
- Sufficient cash shall be maintained to provide adequate funds for current operating expenditures.
- Where permitted, the City will pool its cash resources from various funds ("Treasurer's Cash") for investment purposes.

- Net investment income from Treasurer's Cash will be allocated in accordance with KMC 5.24.060 considering 1) average cash balance of the participating fund and 2) the minimum cash balance needs of each fund as determined by the Director of Finance and Administration. Net investment income is the amount of annual investment proceeds after **first providing for all costs and expenses incurred in the administration of the common investment fund and** an allocation of earned interest is made to certain funds as required by the State and Council-directed obligations are met for General Fund purposes.
- The City of Kirkland will select its official banking institution through a formal bidding process in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available.

ACCOUNTING, FINANCIAL REPORTING AND AUDITING POLICIES

The City of Kirkland will establish and maintain a high standard of accounting practices. Accounting and budgetary systems will, at all times, conform to Generally Accepted Accounting Principles, the State of Washington Budgeting Accounting Reporting System (BARS) and local regulations.

- A comprehensive accounting system will be maintained to provide all financial information necessary to effectively operate the City.
- The City will meet the financial reporting standards set by the Governmental Accounting Standards Board.
- Full disclosure will be provided in all City financial reports and bond representations.
- An annual audit will be performed by the State Auditor's Office and include the issuance of a financial opinion.

RESERVE AND FUND BALANCE POLICIES

Adequate fund balance and reserve levels are a necessary component of the City's overall financial management strategy and a key factor in external agencies' measurement of the City's financial strength.

Maintenance of fund balance for each accounting fund assures adequate resources for cash flow and to mitigate short-term effects of revenue shortages.

City and state regulations have been established to allow the City of Kirkland to create and maintain specific reserve funds. Prudent use of reserve funds enables the City to defray future costs, take advantage of matching funds, and beneficial (but limited) opportunities. Reserve funds provide the City with the ability to exercise flexible financial planning in developing future capital projects. Reserve funds are necessary to enable the City to deal with unforeseen emergencies or changes in condition.

- The City will establish minimum fund balance targets for each fund based on the cash flow requirements of the fund. The City will include all fund balances in the biennial budget.
- The minimum fund balance will be attained and maintained through expenditure management, revenue management and/or contributions from the General Fund.
- All expenditures drawn from reserve accounts shall require prior Council approval unless previously authorized by the City Council for expenditure in the biennial budget or otherwise provided for by City policies.

Reserve Purposes and Targets

- A Contingency Reserve Fund shall be maintained in accordance with RCW 35A.33.145 to meet any municipal expense, the necessity or extent of which could not have been reasonably foreseen at the

time of adopting the biennial budget. The target balance will be set at 80 percent of the statutory maximum of \$0.375 per \$1,000 of assessed valuation.

- The City will maintain a General Operating Reserve at an amount equivalent to five percent of the tax-supported general government budgets (General Fund, Street Operating Fund and Parks Maintenance Fund) for the second year of the biennium. The General Operating Reserve is available to address unforeseen revenue shortfalls or expenditure needs that occur during the current biennium.
- The City will maintain a Revenue Stabilization Reserve to address temporary revenue losses due to economic cycles or other time-limited causes. The Revenue Stabilization Reserve will be maintained at ten percent of selected General Fund revenue sources which, in the judgment of the Director of Finance and Administration, are subject to volatility. The Revenue Stabilization Reserve may be used in its entirety; however, replenishment will be a priority, consistent with adopted policies.
- The City will maintain a Council Special Project Reserve, which is available to the City Council to fund special one-time projects that were unforeseen at the time the budget was prepared. When the reserve is used, it is replenished from the General Fund year-end fund balance to a target balance of \$250,000.
- The City will maintain a General Capital Contingency to address unforeseen project expenditures or external revenue shortfalls in an amount equivalent to ten percent of the funded two-year CIP budget, less proprietary fund projects.
- In establishing targets for the reserves defined above, voted property tax levies will be excluded from the calculations, since the levies are not intended to burden the General Fund and are expected to absorb unexpected costs from levy proceeds.
- The City Manager may authorize the use of capital funding reserves up to an aggregate total of \$100,000 per year in increments not to exceed \$25,000. The City Manager will provide regular reports to the City Council at a regular Council meeting if this authorization is used. Capital funding reserves include: General Capital Contingency, Street Improvement Reserve, REET Reserves, Impact Fee Reserves, Water/Sewer Capital Contingency, Water/Sewer Construction Reserve, Surface Water Capital Contingency, and Surface Water Construction Reserve.
- The City will maintain a Capital Improvement Project Grant Match Reserve as a means of assuring the availability of cash resources to leverage external funding when the opportunity arises. The reserve will be maintained in the Real Estate Excise Tax Capital Reserve Fund and maintained through excise tax revenue received over and above the annual allocation to the Capital Improvement Plan.
- The City will maintain a Building and Property Reserve with a minimum balance of \$600,000. This reserve is used for property purchases, building improvements and other property-related transactions. It can also be used as a general purpose reserve to fund Council-approved unanticipated expenditures.
- The City will maintain fully funded reserves for the replacement of vehicles and personal computers. Contributions will be made through assessments to the using funds and maintained on a per asset basis.
- Additional reserve accounts may be created to account for monies for future known expenditures, special projects, or other specific purposes.
- All reserves will be presented in the biennial budget.

Reserve Replenishment

- Reserve replenishments occur in two ways during periods of economic recovery:
 - Planned - A specific amount is included in the adopted budget, and

- Unplanned - Ending fund balances are higher than budgeted, either due to higher than budgeted revenues or under-expenditures.
- Planned amounts are included as part of the adopted budget. Planned replenishments toward 80% of the target level shall be set to at least 1% of the General Fund adopted expenditures less reserves budget.
- Unplanned amounts available at the end of each biennium (if any) should help replenish to target faster. A high percentage (up to all) uncommitted funds available at the end of a biennium should be used for reserve replenishment until reserves meet 80% of target and the revenue stabilization reserve is at 100% of target. Some or all of those unplanned funds may be used in place of planned (budgeted) amounts in the following biennium to the extent it meets or exceeds the 1% budgeted amount.
- Once reserves reach 80% of target and revenue stabilization reserve is at 100%, funds may be used to meet other one time or on-going needs. Additional funds should be used to fund a variety of needs, based on the following process:
 - Set 50% of available cash toward reserves until they are at 100% of target.
 - The remaining 50% shall be available for one or more of the following needs, depending on the nature of the funds available (one-time or on-going) and in the following order of priority:
 - Fund liabilities related to sinking funds for public safety and information technology equipment,
 - Maintain current service levels,
 - Fund one-time projects or studies,
 - Increase funding for capital purposes,
 - Restore previous program service reductions,
 - Potential program and service enhancements.
- In terms of priority for replenishing the individual reserves, the following guidelines shall be used:
 - If the Council Special Projects reserve is below target, replenish to target at the start of each biennium.
 - If the revenue stabilization reserve is below target, prioritize replenishing the reserve.
 - To the extent cash is from volatile revenues above budgeted amounts, those funds should be applied to revenue stabilization reserve first.
 - If unplanned funds are available because planned reserve uses did not occur, those funds should be returned to the source reserve.
 - The source of uncommitted funds should be taken into consideration (for example, interest earnings over budget could be applied to the capital contingency, since they are one of the designated sources for this reserve).
 - The degree to which an individual reserve is below target (for example, the reserve that is furthest from its target level on a percentage basis might receive a larger share of the funds).
 - Decisions on how replenishments are allocated to specific reserves will be based on where available funds came from and on each reserve's status at the time the decision is made.
 - The replenishment policy will provide a mechanism whereby Council may take action to suspend replenishment policies if it was found that special conditions existed warranting such action.

DEBT MANAGEMENT POLICIES

The amount of debt issued by the City is an important factor in measuring its financial performance and condition. Proper use and management of borrowing can yield significant advantages. From a policy

perspective, the City of Kirkland uses debt in two ways: (1) as a mechanism to equalize the costs of needed improvements to both present and future citizens; and (2) as a mechanism to reduce the immediate costs of substantial public improvements.

- The City will maintain a formal Debt Management Policy which is reviewed and endorsed by state and/or national professional organizations. The complete policy can be found in the appendix of this document.
- City Council approval is required prior to the issuance of debt.
- An analytical review shall be conducted prior to the issuance of debt.
- The City will continually strive to maintain its bond rating by improving financial policies, budget forecasts and the financial health of the City so its borrowing costs are minimized and its access to credit is preserved.
- All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the proposed debt.
- The City of Kirkland will not use long-term debt to support current operations.
- Long-term borrowing will only be used for capital improvements that cannot be financed from current revenues.
- Non-capital furnishings, supplies, and personnel will not be financed from bond proceeds.
- Interest, operating and/or maintenance expenses will be capitalized only for enterprise activities; and will be strictly limited to those expenses incurred prior to actual operation of the facilities.
- The general obligation debt of Kirkland will not exceed an aggregated total of 7.5% of the assessed valuation of the taxable property within the City.
- The following individual percentages shall not be exceeded in any specific debt category:
 - General Debt -- 2.5% of assessed valuation
 - Non-Voted -- 1.5% Limited Tax General Obligation (LTGO) Bonds
 - Voted -- 1.0% Unlimited Tax General Obligation Bonds
 - Utility Debt -- 2.5% of assessed valuation
 - Open Space and Park Facilities -- 2.5% of assessed valuation
- The City's policy is to plan and direct the use of debt so that debt service payments will be a predictable and manageable part of the Operating Budget.
- Short-term borrowing will only be used to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received.
- Assessment bonds will be considered in place of general obligation bonds, where possible, to assure the greatest degree of public equity.
- Limited Tax General Obligation (LTGO) bonds will be issued only if:
 - A project requires funding not available from alternative sources;
 - Matching fund monies are available which may be lost if not applied for in a timely manner; or
 - Emergency conditions exist.
- The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the asset's useful life.

- General Obligation bonds will be issued with maturities of 30 years or less unless otherwise approved by Council.
- The maturity of all assessment bonds shall not exceed statutory limitations. RCW 36.83.050.
- The City will use refunding bonds, where appropriate, when restructuring its current outstanding debt.

CAPITAL IMPROVEMENT POLICIES

Kirkland's City government is accountable for a considerable investment in buildings, parks, roads, sewers, equipment and other capital investments. The preservation, maintenance, and future improvement of these facilities are a primary responsibility of the City. Planning and implementing sound capital improvement policies and programs today will help the City avoid emergencies and major costs in the future, therefore:

- The City will establish and implement a comprehensive multi-year Capital Improvement Program.
- The Capital Improvement Program will be prepared biennially concurrent with the development of the biennial budget. A mid-biennium review and update will take place during the first year of the biennium.
- The City Council will designate annual ongoing funding levels for each of the major project categories within the Capital Improvement Program.
- Financial analysis of funding sources will be conducted for all proposed capital improvement projects.
- A Capital Improvement Budget will be developed and adopted by the City Council as part of the biennial budget and will be amended during the mid-biennial budget review process (during the first year of the biennium) to reflect any changes in the updated Capital Improvement Program.
- The Capital Improvement Program will be consistent with the Capital Facilities Element of the Comprehensive Plan.
- The City Manager may authorize the reallocation of CIP project funds between CIP projects within a CIP category up to \$50,000 per instance. Funding may only be reallocated within a CIP category (i.e. between Transportation projects, or Parks projects, or Public Safety projects, etc.) when one project is over budget and, in the same period, a second project within the same CIP category has been completed and is closing out under budget. The City Manager will provide regular reports to the City Council at a regular Council meeting if this authorization is used.

City of Kirkland Budget Dashboard

Date Completed

11/18/2016

Annual Budget Status as of 10/31/2016 (Note 1)

Percent of Year Complete 83.33%

	2016 Budget	Year-to-Date Actual	% Received/ % Expended	Status		Notes
				Current Report	Last Report	
General Fund						
Total Revenues	88,992,410	77,992,525	87.6%			
Total Expenditures	89,699,325	72,872,373	81.2%			

Key Indicators (All Funds)

<i>Revenues</i>						
Sales Tax	17,963,747	16,627,794	92.6%			
Utility Taxes	15,175,950	12,058,516	79.5%			
Business License Fees	2,988,028	2,888,714	96.7%			
Development Fees	7,865,453	9,525,919	121.1%			
Gas Tax	1,684,070	1,495,334	88.8%			
<i>Expenditures</i>						
GF Salaries/Benefits	60,547,533	48,263,533	79.7%			Excludes Fire Suppression Overtime
Fire Suppression Overtime	735,411	1,061,036	144.3%			Excludes FS 24 Overtime
F.S. #24 Overtime Staffing	465,944	374,229	80.3%			
Contract Jail Costs	416,867	288,210	69.1%			
Fuel Costs	738,927	290,183	39.3%			

Status Key

Revenue is higher than expected or expenditure is lower than expected

Revenue/expenditure is within expected range

WATCH - Revenue/expenditure outside expected range



Note 1 - Report shows annual values during the second year of the biennium (2016).

October 2016 Financial Dashboard Highlights

November 22, 2016

- The dashboard report reflects the 2016 share of the biennial budget adopted by the City Council on December 9, 2014 and adjusted on December 8, 2015 and June 21, 2016. The actual revenues and expenditures summarized reflect results through October 31, 2016, 83.3 percent through the year.
- Total General Fund revenues received through October were at 87.6 percent of budget. Collections are higher than expected due largely to sales tax, plan check fees, and building-related permits.
 - Sales tax revenues through the end of October were up 6.6 percent compared to October 2015 and are at 92.6 percent of budget. All sectors, with the exception of General Merchandise/Misc. Retail, are up compared to 2015; high levels of contracting sales tax revenues account for nearly 37 percent of the year to date growth. The sales tax revenue reflects activity through August 2016 due to the two month lag in receipt of the funds from the Department of Revenue.
 - Utility tax receipts were \$12,058,516 at the end of October, which is 79.5 percent of the budget. This amount is on par with October 2015. Revenues in 2015 came in under budget, and are on pace to do so again in 2016.
 - Business license revenues through October are 96.7 percent of budget; this is higher than last October's revenue by \$354,805, an increase of 14.3 percent. The above-budget performance this year is partly the result of City efforts to identify businesses operating without licenses. Many of these businesses owe the City up to three years of business license fees. The improvement in compliance with licensing means revenues should be higher on average going forward from this year, but the collection of past due amounts represents one-time revenues.
 - Development fees through the end of October were at 121.1 percent of budget. This is 28.7 percent higher than 2015, which was also a strong year.
 - Building revenues through October are 119.8 percent of budget. This figure includes significant one-time fees, most notably for Kirkland Urban plan checks and parking garage building permits. In October, the majority of building permit revenues are related to a large residential development in downtown Kirkland and work at the Village at Totem Lake.
 - Engineering revenues are at 122.6 percent of budget through October. Revenues in October were about average when compared to the rest of 2016.
 - Planning revenues through October are at their highest level in 5 years, with 129.1 percent of the budget collected. This is due to several moderately large subdivisions and numerous short plats. About one-fourth of October revenues were generated from a single Design Board Review for a multi-use development in downtown Kirkland.
 - Gas taxes finished October at \$1,495,334, which is 88.8 percent of the annual budget. This is higher than October 2015 by 4.4 percent and continues to outperform 2015.
- Total General Fund expenditures were 81.2 percent of budget through the end of October.
 - General Fund expenditures for salaries and benefits were \$48.3 million, which is 79.7 percent of the annual budget, with 83.3 percent of the year completed. Salaries and benefits are 2.5 percent higher than in 2015. Much of this increase is due to back-pay for settled collective bargaining contracts.
 - Fire suppression overtime expenditures were \$1,061,036 at the end of October, which is 144.3 percent of budget, and \$138,757 higher than this time in 2015. This is due to three reasons: 1) There have been more sick days used to this point in 2016 compared to 2015; 2) the City has been sending more firefighters to state trainings, necessitating more overtime backfill; 3) the state reimburses the City for the wages firefighters receive while at these trainings, but the City now accounts for that money

differently. In the past, reimbursements were recorded as a negative expenditure in Fire Suppression overtime, now it is recorded as a revenue. While this accounting results in expenditures that are higher, there is about \$65,000 in offsetting revenue to compensate.

- Contract jail costs were 59.5 percent of budget at the end of October, 9.8 percent above October 2015. This budget is for costs of housing inmates that cannot be kept at the local jail for medical reasons. Since the opening of the Kirkland Justice Center, the city sends significantly fewer prisoners to other jails for non-medical reasons, leading to an ongoing decline in contract jail usage. The year-to-date increase is due to earlier than expected billing for costs accrued in September for offender housing at the South Correctional Entity (SCORE). As a result, October 2016 year-to-date expenditures reflect 10 months of SCORE costs versus 9 months in October 2015 figures. However, contract jail costs have been trending upwards as offender classification has been introduced in the facility.
- Fuel costs ended October at \$290,183, 39.3 percent of budget. Expenditures are 18.4 percent under 2015. This is despite greater fuel use relative to last year, as fuel prices continue to keep expenses low relative to budget.

Attachments: October Dashboard



CITY OF KIRKLAND
Department of Finance & Administration
 123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
 www.kirklandwa.gov

MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance & Administration
 Tom Mikesell, Financial Planning Manager
 Elijah Panci, Budget Analyst

Date: November 4, 2016

Subject: October Sales Tax Revenue

October results reflect sales activity in August, due to the two month lag in reporting sales tax data. Sales tax revenue is **up 6.6 percent** compared to October 2015, which was a relatively slow month. Construction and Miscellaneous revenues drove growth, while a few sectors experienced a mild decline. The year-to-date growth, which had been steadily trending downward over the past few months, increased slightly this month, up 0.1 percent to **5.9 percent**.

The following sections discuss the highlights by business sector of both the month-to-month and year-to-date results. Also included are observations of sales tax collections in our neighboring cities, as well as a discussion of key economic variables that impact sales taxes.

Comparing October 2016 to October 2015

Comparing collections from the month of October this year and last provides insight into business sector performance controlling for seasonal cycles in sales.

2016 Sales Tax Receipts by Business Sector-Monthly Actuals

Business Sector Group	October		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2015	2016
Services	232,852	219,167	(13,685)	-5.9%	14.2%	12.5%
Contracting	269,252	324,886	55,634	20.7%	16.4%	18.6%
Communications	40,110	42,224	2,114	5.3%	2.4%	2.4%
Retail:						
Auto/Gas Retail	436,117	423,558	(12,559)	-2.9%	26.5%	24.2%
Gen Merch/Misc Retail	167,301	160,118	(7,183)	-4.3%	10.2%	9.1%
Retail Eating/Drinking	145,407	143,599	(1,808)	-1.2%	8.8%	8.2%
Other Retail	209,816	223,769	13,953	6.7%	12.8%	12.8%
Wholesale	52,124	74,426	22,302	42.8%	3.2%	4.2%
Miscellaneous	90,411	139,528	49,117	54.3%	5.5%	8.0%
Total	1,643,390	1,751,274	107,885	6.6%	100%	100%

Comparing month-over-month, October sales tax collections this year are **\$107,885 (6.6 percent)** higher than October 2015.

In terms of dollar growth, **Contracting** performed best compared to October 2015, increasing by **\$56,000 (20.7 percent)**. The top three improving sectors were rounded out by **Miscellaneous**, which was up **\$49,000 (54.3 percent)** and **Wholesale**, which grew **\$22,000 (42.8 percent)**.

While there was sizable month-over-month growth this October, much of it appears to be related to one-time events. Contracting again plays a large role in keeping the growth rate higher than it might otherwise be. Miscellaneous is up almost entirely due to an anomalously large distribution from the state (\$40,000), an amount that is generally below \$5,000. This distribution alone accounts for 37.6 percent of month-over-month growth. This figure represents revenues with incomplete coding, which the state distributes according to the best estimate of origin. Without that revenue, month-over-month growth would fall to 4.1 percent.

A few groups fell this month, led by **Services, which fell \$14,000 (5.9 percent)**. Rounding out the top three were **Auto/Gas Retail, which was down \$13,000 (2.9 percent)**, and **General Merchandise/Misc Retail, which was down \$7,000 (4.3 percent)**.

The decreases in Services and General Merchandise/Miscellaneous Retail were not encouraging, but not severe either. The decline in Auto/Gas Retail is a bit misleading, as October car sales were strong, but the comparison to October 2015 is not flattering, as that month was the highest grossing of the past two years. The month-over-month trends overall were not encouraging, but not particularly poor, given that Auto/Gas Retail sales were relatively strong.

Year-to-Date Review

Year-to-date sales tax totals are useful for comparing revenues received so far this year with last year's totals through the same period. This information gives context on each sector's longer term performance and allows developing trends to be identified.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2015	2016
Services	2,119,813	2,235,144	115,331	5.4%	13.5%	13.4%
Contracting	2,411,802	2,751,745	339,943	14.1%	15.4%	16.5%
Communications	356,300	443,455	87,155	24.5%	2.3%	2.7%
Retail:						
Auto/Gas Retail	3,955,337	3,967,043	11,706	0.3%	25.2%	23.9%
Gen Merch/Misc Retail	1,810,238	1,745,553	(64,685)	-3.6%	11.5%	10.5%
Retail Eating/Drinking	1,305,496	1,332,750	27,254	2.1%	8.3%	8.0%
Other Retail	2,091,262	2,285,208	193,946	9.3%	13.3%	13.7%
Wholesale	756,957	799,511	42,554	5.6%	4.8%	4.8%
Miscellaneous	891,529	1,067,387	175,858	19.7%	5.7%	6.4%
Total	15,698,732	16,627,794	929,062	5.9%	100%	100%

Through the end of October, year-to-date sales tax revenues are up **5.9 percent**. This is 0.1 percentage points higher than the year-to-date growth rate reported in September.

By dollar amount, the largest growth is in **Contracting**, which is up **\$340,000 (14.1 percent)** from last year. **Other Retail** and **Miscellaneous** are the next two leading sectors, up **\$194,000 (9.3 percent)** and **\$176,000 (19.7 percent)** respectively. After a somewhat slow month in September, Contracting rebounded in October and now accounts for 36.6 percent of year-to-date growth. Other Retail, which includes Internet Sales, Food & Beverage, Electronics, Furniture, and others, has consistently been one of the top growth groups in 2016. Miscellaneous jumped into the top three due to outperforming Services significantly in October.

General Merchandise/Misc Retail is the only group down on the year, **\$65,000 (3.6 percent)** below 2015 revenues. Receipts are down marginally for most major retailers in the Misc Retail category, which accounts for \$57,000 of the decrease. Though it is the only sector to decline, it is one of the largest sectors and an important contributor to the City's sales tax revenue. However, at least a portion of this due to lost economic activity from closed businesses at the Totem Lake and Kirkland Urban construction sites.

Also worth noting is the relative lack of growth of **Auto/Gas Retail**, which is now at 0.3 percent. The growth rate was up to 6.4 percent in April, but has declined almost every month since then.

Neighboring City Performance

Neighboring cities are performing well this year, though results in October were somewhat mixed. Year-to-date growth in Bellevue increased 0.6 percentage points to 7.4, while Seattle and Renton decreased 0.4 and 0.1 percentage points down to 11.0 and 7.7 percent respectively. Bothell fell 0.9 points, down to 7.9 percent on a year-to-date basis. Redmond's booming growth through August appears to be over, and saw a 3.9 point drop in year-to-date growth, which is still up an impressive 36.4 percent on the year. Overall, Kirkland has the lowest year-to-date growth of these cities, 1.8 percentage points below Seattle, the next closest growth rate.

National and Regional Economic Context:

Information about wider trends in the economy provides a mechanism to help understand current results in Kirkland, as well as predict future performance. The combination of consumer confidence, unemployment levels, housing data and auto sales provide the broader economic context for key factors in sales tax revenues. The following table includes the most recently available data and prior month's readings, for some of the most relevant indicators.

2016 Wider Economic Indicators					
Indicator	Most Recent Month of Data	Unit	Month		
			Current	Previous	Change
Consumer Confidence					
Consumer Confidence Index	October	Index	98.6	104.1	(5.5)
Unemployment Rate					
National	September	%	5.0	4.9	0.1
Washington State	September	%	5.1	5.7	(0.6)
King County	September	%	4.0	3.9	0.1
Kirkland	September	%	3.5	3.3	0.2
Housing					
New House Permits	August	Thousands	29.1	39.8	(10.7)
Seattle Area Home Prices	August	Index	204.7	203.7	1.0
Inflation (CPI-W)					
National	September	% Change	1.2	0.7	0.5
Seattle	August	% Change	2.0	2.0	0.0
Car Sales					
New Vehicle Registrations	September	Thousands	26.2	25.2	1.0

The Conference Board reported a decrease for the **Consumer Confidence Index** in October, as the Index fell 5.5 points to 98.6. The Board indicated that both near-term and long-term indicators decreased, as consumers anticipate minimal growth.

Unemployment Rates increased slightly at the National level, rising to 5.0 percent from August to September. The September unemployment rate in Washington State fell significantly, down 0.6

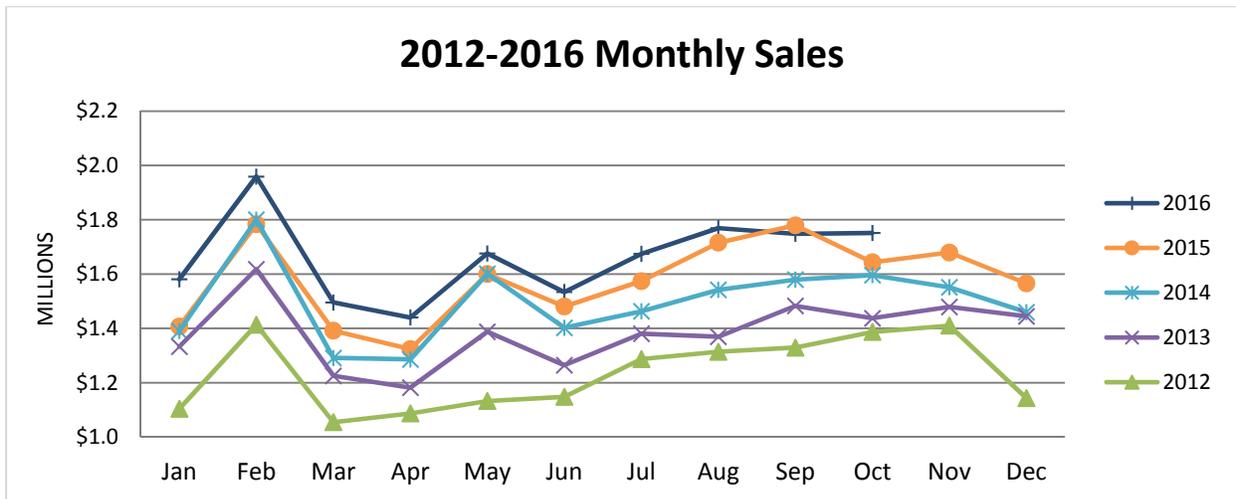
percentage points to 5.1 percent. King County and Kirkland each crept up marginally in September, but continue to remain at low levels, 4.0 and 3.5 percent respectively.

The latest data on statewide **New House Permits** continues to show a significant decrease, down to 29,100 permits in August from 39,800 permits in July. The monthly average for new permits in 2016 is now 4.3 percent below 2015 after holding steady throughout the year despite month-to-month volatility. This represented the fewest number of permits issued in the month of August since January 2014.

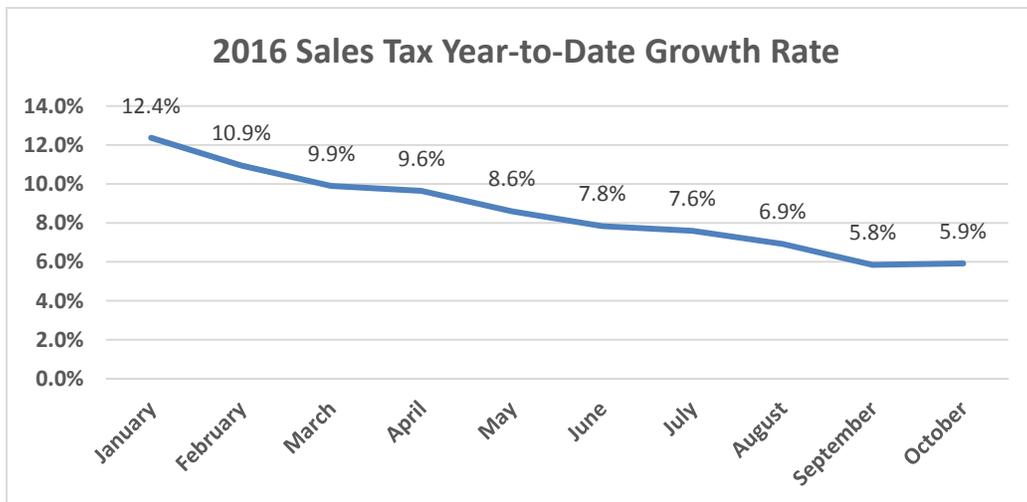
New Vehicle Registrations increased in September, up by 1,000 to 26,200, their highest level since February. Registration levels remain high relative to 2014 and 2015.

Conclusion

The following chart shows Kirkland's monthly sales tax revenues through October.



Month-over-month sales tax revenue in October 2016 is back above 2015, though the graph shows that October 2015 was a slow month. The year-to-date growth rate increased for the first time this year, albeit marginally. October's performance did not answer any questions, and mixed results over the past couple months don't suggest a big change either upwards or downwards in the near future. Economic context data is somewhat mixed. Despite consumers feeling more cautious about the state of the economy, other indicators do not point to a significant downturn. For now a "wait and see" approach may be most prudent.



Maximum Maturities	Policy Requirement	Percentage of Portfolio	Portfolio Allocation	Within Limits	Credit Rating	Within Limits
Under 30 days	10%	35%	\$ 65,932,868	Yes	Municipal	
Under 1 year	25%	49%	\$ 92,116,335	Yes	AA-	by S&P Yes
Under 5 years	100%	100%	\$ 189,564,121	Yes	Aa3	by Moodys Yes
Maximum Weighted Average Maturity	3 Years		1.45	Yes	Commercial Paper/Bankers Acceptance	
Maximum Callable Securities	50%	30%	\$ 19,963,730	Yes	A1+ / P1	Yes
Maximum Single Maturity	5 Years		4.17	Yes	AA-/Aa3	Long-Term Rating

Asset Allocation Diversification	Maximum Policy Allocation	Issuer Constraint	Percentage of Portfolio	Market Value	Within Limits
U.S. Treasury Obligations	100%		16%	\$ 30,179,095	Yes
Government Agencies	100%		45%	\$ 85,864,581	Yes
FHLB		30%	4%	\$ 7,112,681	Yes
FNMA		30%	13%	\$ 25,054,460	Yes
FHLMC		30%	16%	\$ 30,107,040	Yes
FFCB		30%	11%	\$ 20,009,400	Yes
Other GSE's	20%	10%	2%	\$ 3,581,000	Yes
Municipal Bonds- GO States - Locals WA	20%	5%	3%	\$ 6,128,614	Yes
Certificates of Deposit	10%	5%	3%	\$ 5,039,963	Yes
Commercial Paper	5%	5%	0%	\$ -	Yes
Bank Deposits	50%	0%	14%	\$ 27,153,303	Yes
Bankers Acceptances	5%	5%	0%	\$ -	Yes
Local Government Investment Pool	100%	N/A	19%	\$ 35,198,565	Yes
Total			100%	\$ 189,564,121	



Name	Par Amount	Total Adjusted Cost	Market Value	Unrealized Gain/Loss	Yield At Cost	Eff Dur	Bench Dur
City of Kirkland - Core Investment Fund	\$ 121,706,000	\$ 121,814,911	\$ 122,172,290	\$ 357,378	1.15	1.95	2.25
City of Kirkland Liquidity	\$ 67,391,831	\$ 67,391,831	\$ 67,391,831		0.52	0.09	0.10
TOTAL PORTFOLIO	\$ 189,097,831	\$ 189,206,742	\$ 189,564,121	\$ 357,378	0.92	1.29	1.49

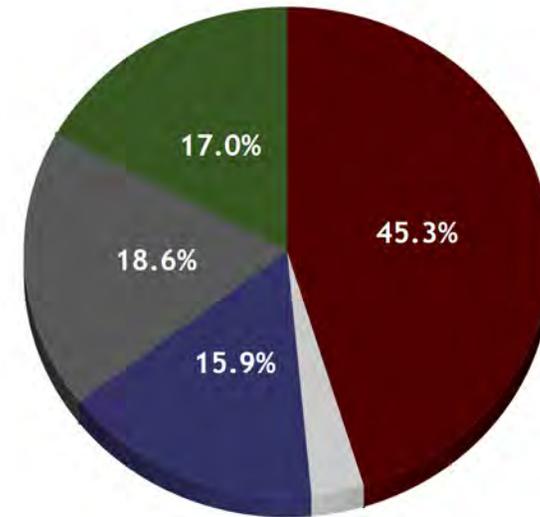


Total Funds City of Kirkland

Weighted Averages

Book Yield	0.92
Maturity	1.45
Coupon	0.93
Moody	Aa1
S&P	AA+

Fixed Income Allocation



Fixed Income Totals

Par Value	189,097,831
Market Value	189,564,120.88
Amortized Book Value	189,206,742.43
Unrealized Gain/Loss	357,378.45
Estimated Annual Cash Flow	1,754,355.62

Security Type	Market Value	% Assets
US Agency (USD)	85,864,581.00	45.3
Municipal (USD)	6,128,613.75	3.2
US Treasury (USD)	30,179,095.00	15.9
LGIP State Pool (USD)	35,198,565.04	18.6
Bank or Cash Deposit (USD)	32,193,266.09	17.0
Fixed Income Total	189,564,120.88	100.0

Disclaimer

This material is based on information obtained from sources generally believed to be reliable and available to the public; however, GPA cannot guarantee its accuracy, completeness, or suitability. This material is for purposes of observations and oversight and is the opinion of the author and not necessarily of GPA, LLC. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this document is not an offer to purchase or sell any securities.

Definition and Terms

Maturity Distribution: The policy limits maturity risk in the portfolio by establishing a maximum weighted average maturity of the overall portfolio at 3 years, the maximum single issue maturity at 5 years and a limit on callable securities of 50% in the portfolio.

Investment Component: This is the amount of the overall portfolio balances that are in excess of liquidity requirements and invested in open market securities to add returns to the portfolio above LGIP rates.

Liquidity Component: This is the amount of the overall portfolio balances that are held in short term liquid investments to meet ongoing operational budgets and cash flows. An annual assessment of this amount is evaluated through a questionnaire process determining liquidity needs and City preferences, (Guiding Portfolio Strategy "GPS") completed by Government Portfolio Advisors.

Portfolio Summary: Provides of summary of **Par Amount** (face value of the security), **Original Purchase Adjusted cost** (adjusted by amortization to date) and **Market Value** by portfolio component of liquidity and core fund. **Yield at cost** is the earnings rate, **Modified Duration** is the risk measure used to determine the price volatility of the portfolio and is based on the cash flows to maturity. The comparison of the portfolio duration to the benchmark duration is used to articulate the positioning of the portfolio relative to the benchmark based on market risk. If the portfolio is longer in duration than the benchmark it will do better when rates fall versus the benchmark. If the portfolio duration is shorter than the benchmark it will perform better when rates rise. The benchmark is established through the GPS process and creates a discipline to managing the portfolio.

Weighted Averages: Calculates the allocation per bond on a weighted basis to the total portfolio for the book yield, maturity and coupon. **Book Yield** is the overall interest rate earned by an investor who buys the bond today at the market price, assuming that the bond will be held until **maturity** (the final date for payment of principal and interest), **Coupon** is the interest paid on a bond, usually semi-annual, expressed as a percentage of the face value (par) of a bond.

Fixed Income Totals: Summary of key elements of the portfolio. Realized Gain/Loss is calculated as the difference between the amortized cost and the market value. The estimated annual cash flow is the weighted average coupon cash flow generated from the portfolio and does not include amortization or accretion.

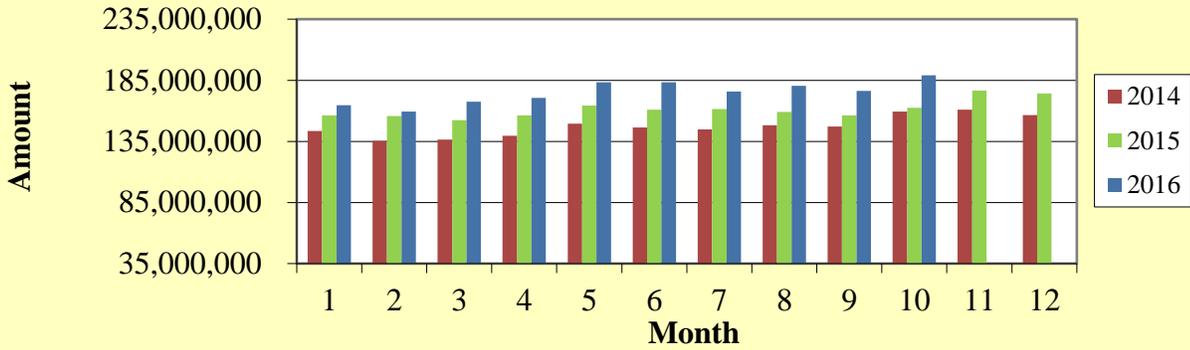
ATTACHMENT D

Policy Section	Compliance	Current Portfolio	Policy Requirement	Frequency
5.1 Delegation of Authority	Compliant	Investment procedures are documented	Establish written procedures for operations of the investment program	Updated as needed
6.2 Safekeeping	Compliant	US Bank Safekeeping	All Securities will be held in Safekeeping	Monthly
6.3 Internal Controls	Compliance	Section 3. Internal Controls in Procedures Manual	Documented in Investment Procedures Manual	Updated as needed
6.4 External Review	Compliant	2013 review completed	External review of City Investment Policy and Investment Portfolio for compliance and best practices	Every 3 Years
7.1 Broker/Dealers	Compliant	Detailed Authorized Broker/Dealer list provided by the Investment Advisor is on file.	<ul style="list-style-type: none"> Review of Financial Industry Regulatory Authority report on firm and broker Certification of having read the Policy and receipt of the City's Trading Authorization or Broker/Dealer list provided by Investment Advisor 	Annual
7.3 Bank Institutions	Compliant	U.S. Bank, Opus, Umpqua	Only PDPC participating banks	At Inception
7.4 Competitive Transactions	Compliant	One security was purchased in October which settled in November. Broker security offerings are on file in H:\FINANCE\Z Investments	3 bids for security purchase or sale	Monthly
8.0 Authorized Investments	Compliant		Authorized by WA State Statute RCW 39.58, 39.59, 43.250, 43.84.080	Monthly
9.0 Investment Parameters Authorized Investments Credit Ratings	Compliant	Detailed in GASB 40 Report, GPA Compliance Report	Requires AA- or better from Standard & Poor's and Aa3 by Moody's	Semi-Annual
9.1 Diversification			Maximums	Monthly
US Treasury Obligations	Compliant	16%	100%	
US Agency Primary	Compliant	45%	100%, 30% per issuer	
US Agency Secondary Issuance	Compliant	0%	20%, 10% per issuer	
Local Government Investment Pool	Compliant	19%	100%	
Bank Deposits	Compliant	14%	50%	
Certificates of Deposits	Compliant	3%	10%, 5% per issuer	
Commercial Paper	Compliant	0%	5%, 5% per issuer	
Municipal Bonds	Compliant	3%,	20%, 5% per issuer	
Bankers Acceptances	Compliant	0%	5%, 5% per issuer	
9.2 Investment Maturity	Compliant	1.45 Years 35% 49% 100%	Maximum Weighted Maturity 3 Years Minimum % of Portfolio Under 30 Days 10% Under 1 Year 25% Under 5 Years 100%	Monthly
9.2 Investment Maturity Maximum Maturity	Compliant	2/26/2021	Maximum Maturity of Individual Issue 5 Years	Monthly
9.2 Investment Maturity Callable Securities in Core	Compliant	30%	50%	Monthly

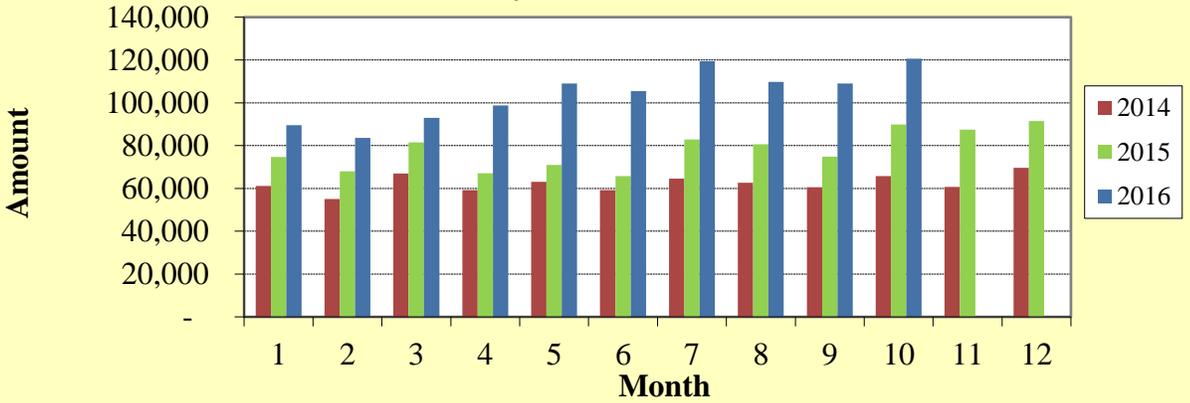
ATTACHMENT D

10.0 Reporting Requirements	Compliant	2016 2 nd Quarter FMR Report is available	Annual, Quarterly & Monthly	Monthly
10.2 Performance Standards	Compliant	LGIP 0.47% <u>Portfolio</u> Liquidity Portion 0.52% Investment Core 1.15% Total Portfolio 0.92%	LGIP for earnings rate US Treasury index for total return	Monthly
10.3 Compliance Report	Compliant	This report is provided monthly to the Finance and Administration Committee	Quarterly comparison to Investment Policy	Quarterly
11.0 Investment Policy Adoption	Compliant	October 29, 2015 and April 4, 2016 Investment Committee Review	Annual Review	Annual
11.0 Investment Policy Adoption	Compliant	Last adopted 7-19-2016	Policy shall be adopted by City Council	Changes Adopted As Needed

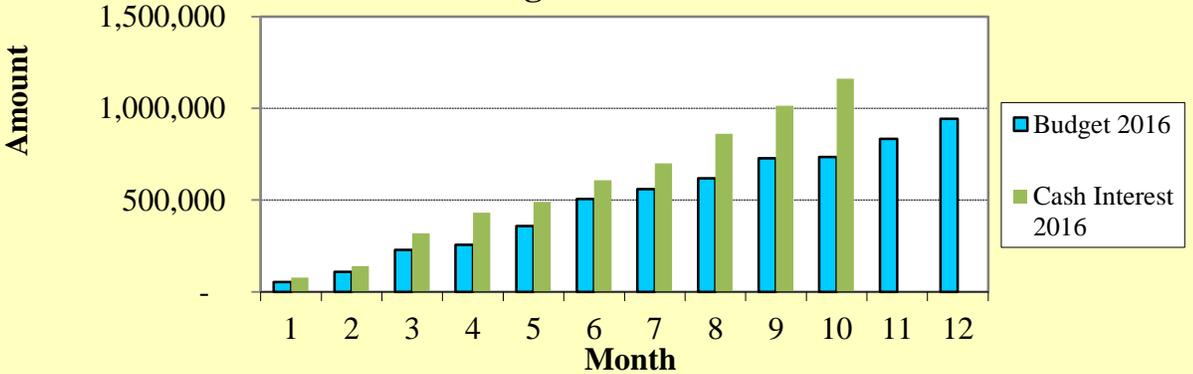
Portfolio Size



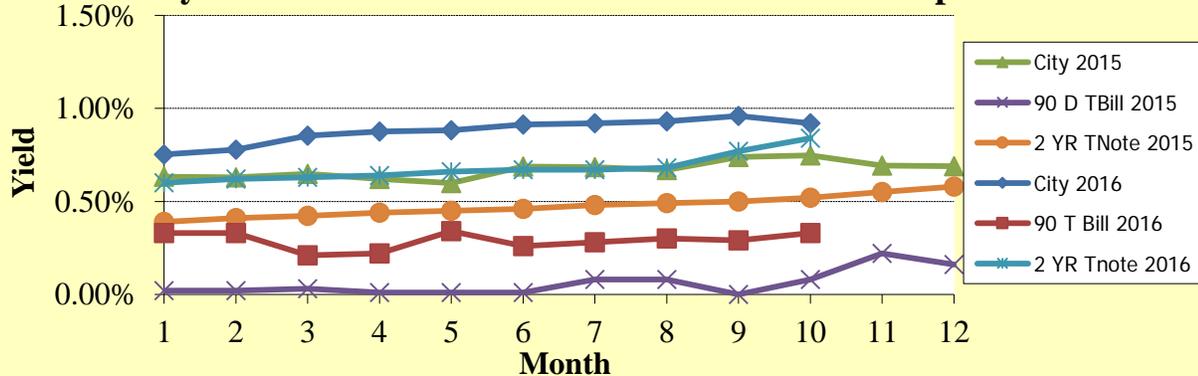
Monthly Interest Earned



Year-To-Date Budget to Actual Interest Earned



City of Kirkland/90d T Bill/2 YR TNote Yield Comparisons



ATTACHMENT D

City of Kirkland
Investment Portfolio Analysis
As of October 31, 2016

Month	Kirkland Portfolio				Monthly Interest Earned (accrual basis)				2013	2014	2015	2016
	2013	2014	2015	2016	2013	2014	2015	2016				
January	147,092,449	143,421,023	156,314,647	164,511,618	58,580	61,187	74,750	89,513	58,580	61,187	52,583	89,513
February	146,976,588	135,412,468	155,851,451	159,291,435	62,157	55,081	68,033	83,650	167,721	109,710	142,492	173,163
March	146,167,907	136,341,046	152,331,121	167,562,033	77,984	66,925	81,552	93,029	208,036	142,550	224,044	276,988
April	155,152,206	139,552,582	156,349,024	170,445,138	69,791	59,152	67,068	98,779	257,241	204,059	290,728	364,690
May	160,818,008	149,485,197	164,255,373	183,280,257	73,445	63,100	70,933	108,983	386,233	255,598	361,765	475,507
June	153,742,052	146,480,895	160,825,611	183,434,333	57,863	59,152	65,781	105,448	510,923	428,683	434,062	583,307
July	150,140,357	144,749,873	161,393,089	175,823,626	61,370	64,607	82,917	119,380	579,393	465,939	516,979	700,510
August	146,159,493	148,202,978	159,179,241	180,483,218	63,600	62,646	80,577	109,797	589,927	470,342	598,682	828,411
September	144,140,492	147,019,653	156,319,946	176,349,757	61,484	60,561	74,863	109,001	610,367	486,803	680,022	943,850
October	150,142,806	159,269,554	162,427,526	189,085,270	65,593	65,709	89,879	120,649	669,902	561,174	770,839	1,067,489
November	153,361,598	161,062,345	176,442,633		65,109	60,726	87,496		717,757	589,228	859,023	
December	144,891,904	156,573,354	174,176,972		69,468	69,693	91,472		896,405	744,154	950,496	
Average	149,898,822	147,297,581	161,322,220	175,026,668	65,537	62,378	77,943	103,823	n/a	n/a	n/a	n/a

Month	2 Yr T-Bill 2 Yr. Rolling Average												% of Budget			
	City 2013	City 2014	City 2015	City 2016	90 D TBill 2013	90 D TBill 2014	90 D TBill 2015	90 D TBill 2016	2 YR TNote 2013	2 YR TNote 2014	2 YR TNote 2015	2 YR TNote 2016	Cash Interest 2016	Budget 2016	Actual	Budget
January	0.62%	0.57%	0.63%	0.75%	0.07%	0.02%	0.02%	0.33%	0.33%	0.29%	0.39%	0.60%	77,650	53,100	8%	6%
February	0.64%	0.59%	0.63%	0.78%	0.11%	0.05%	0.02%	0.33%	0.32%	0.29%	0.41%	0.62%	139,345	108,600	15%	12%
March	0.64%	0.59%	0.65%	0.85%	0.07%	0.05%	0.03%	0.21%	0.29%	0.30%	0.42%	0.63%	319,419	229,200	34%	24%
April	0.61%	0.58%	0.62%	0.88%	0.05%	0.03%	0.01%	0.22%	0.28%	0.30%	0.44%	0.64%	432,250	256,500	46%	27%
May	0.51%	0.55%	0.60%	0.88%	0.04%	0.04%	0.01%	0.34%	0.27%	0.37%	0.45%	0.66%	490,221	358,000	52%	38%
June	0.52%	0.56%	0.69%	0.91%	0.04%	0.04%	0.01%	0.26%	0.27%	0.31%	0.46%	0.67%	608,625	506,000	65%	54%
July	0.55%	0.57%	0.68%	0.92%	0.04%	0.03%	0.08%	0.28%	0.27%	0.33%	0.48%	0.67%	700,739	560,000	74%	59%
August	0.56%	0.56%	0.67%	0.93%	0.03%	0.03%	0.08%	0.30%	0.27%	0.34%	0.49%	0.68%	860,949	618,000	91%	66%
September	0.56%	0.57%	0.74%	0.96%	0.02%	0.02%	0.00%	0.29%	0.28%	0.35%	0.50%	0.77%	1,013,735	728,000	108%	77%
October	0.57%	0.53%	0.75%	0.92%	0.04%	0.01%	0.08%	0.33%	0.28%	0.36%	0.52%	0.84%	1,161,257	735,000	123%	78%
November	0.56%	0.55%	0.69%		0.06%	0.02%	0.22%		0.28%	0.37%	0.55%			834,000	0%	88%
December	0.59%	0.62%	0.69%		0.07%	0.04%	0.16%		0.29%	0.39%	0.58%			942,500	0%	100%
Average	0.58%	0.57%	0.67%	0.88%	0.05%	0.03%	0.06%	0.29%	0.29%	0.33%	0.47%	0.68%	n/a	942,500	n/a	n/a



Financial Management Report as of September 30, 2016

AT A GLANCE:

City proposes public safety improvements in 2017-18 budget under "Stay Steady, Get Ready" theme (page 2)

2016 third quarter General Fund revenues increased 9.5% over 2015 (page 3)

Sales tax revenue grew 5.8% through the third quarter (page 5)

Unemployment is falling, Seattle inflation grows, and the housing prices continues to rise (pages 7-8)

The City's portfolio outperformed both the 90 day T Bill and the 2 year rolling average of the 2 year Treasury note (page 8)

Inside this issue:

Expenditure Summary	2
General Fund Revenue	3
General Fund Expenditures	4
Sales Tax Revenue	5-6
Economic Environment	7-8
Investment Report	8-9
Reserve Summary	10-11

Summary of All Operating Funds: *Revenue*

- **General Fund** revenue ended September **9.5 percent ahead** of 2015, an increase of \$5,964,555. The increase is largely the result of higher planning fees, sales taxes, and construction permits. Actual revenues finished the quarter at 74.4 percent of budget, three-fourths of the way through the year. A more detailed analysis of General Fund revenue can be found on page 3, and details on sales tax revenue begin on page 5.
- **Other General Government Funds** revenue finished the quarter **4.9 percent higher** than 2015, up \$518,907. **The Street Operating Fund** and **Information Technology Fund** accounted for the majority of the growth, up **5.7 and 5.3 percent** respectively. Information Technology Fund revenue grew largely due to charges received for temporary GIS services provided in support of the Lucity Enterprise Asset Management project, while Street Operating Fund revenue grew largely due to two factors: higher gas tax revenue as a result of state legislative increases in the fall of 2015 and an insurance recovery for a traffic signal that was knocked down on Willows Road.
- Actual revenue for total Other Government revenues, excluding interfund transfers, was at **69.8 percent of budget**. All funds were near or exceeding expected levels. The bulk of revenues to several funds, including the **Street Operating Fund, Parks Levy Fund, and Parks Maintenance Fund** arrive in the second and fourth quarters of the year.
- **Surface Water Management Fund** revenues were **4.1 percent lower** than they were during the same period in 2015 and are at **56.5 percent of budget**. The decrease is due to lower grant revenue in 2016. In 2015, the City received grant revenue from the Department of Ecology for local source control and the Environmental Protection Agency for Totem Lake/Juanita Creek Basin storm water control design. Excluding the impacts of these grants, revenue would otherwise be 1.0 percent higher than in 2015, led by growth in Storm drainage fees. Like several other funds, revenues to the Surface Water Management Fund are primarily receipted in the second and fourth quarters.
- **Water/Sewer Operating Fund** third quarter revenue is **down 3.0 percent** from 2015. Actual revenue for the quarter was **72.7 percent of budget**. The decline in collections from 2015 is due cooler weather and lower consumption in 2016.
- The **Solid Waste Fund** finished the third quarter of the year with **74.2 percent of budgeted revenues**. Actual revenues were 0.3 percent higher than in 2015.

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	9/30/2015	9/30/2016	% Change	2015	2016	% Change	2015	2016
General Gov't Operating:								
General Fund	62,661,034	68,625,589	9.5%	86,443,318	88,658,144	2.6%	72.5%	77.4%
Other General Gov't Operating Funds	17,993,584	18,873,935	4.9%	26,531,966	27,050,873	2.0%	67.8%	69.8%
Total General Gov't Operating	80,654,617	87,499,525	8.5%	112,975,284	115,709,017	2.4%	71.4%	75.6%
Utilities:								
Water/Sewer Operating Fund	20,153,120	19,554,097	-3.0%	26,451,995	26,905,563	1.7%	76.2%	72.7%
Surface Water Management Fund	5,920,152	5,678,886	-4.1%	9,939,650	10,047,501	1.1%	59.6%	56.5%
Solid Waste Fund	12,474,007	12,510,187	0.3%	16,445,443	16,853,760	2.5%	75.9%	74.2%
Total Utilities	38,547,279	37,743,169	-2.1%	52,837,088	53,806,824	1.8%	73.0%	70.1%
Total All Operating Funds	119,201,896	125,242,694	5.1%	165,812,372	169,515,841	2.2%	71.9%	73.9%

*Budgeted and actual revenues exclude resources forward and interfund transfers.

Summary of All Operating Funds: *Expenditures*

City Proposes Public Safety Investments in 2017-2018 Kirkland City Budget

Under the theme of "Stay Steady, Get Ready," the preliminary 2017-2018 City budget continues to make significant investments in public safety.

These investments are especially important as the City prepares for redevelopment at Kirkland Urban and the Village at Totem Lake. These projects will create new venues to live, work, and enjoy our community. They are anticipated to bring new residents and business activity to Kirkland.

The City is proposing to invest \$13,920,000 for a new fire station in Juanita and renovations to the fire station in Finn Hill. The Fire Department will also add capacity to maintain the quality and speed of emergency services when vacancies occur and new personnel are in training. Together, these improvements will enhance overall response times, particularly in the northern portion of the City.

The budget also includes a proposal to invest \$389,678 into the establishment of a proactive policing unit. This team, working with Kirkland's neighboring cities, will use a blend of community-oriented practices and data analysis to prevent crime. The unit will be funded by reallocating resources and with new revenues.

Final adoption of the budget will be considered during the December 13th City Council meeting. Learn more about Kirkland's government, its services, and the budget process at www.kirklandwa.gov.

- **General Fund** expenditures (excluding transfers) finished the third quarter of 2016 **up 3.7 percent** from the year before. Actual expenditures finished at **74.0 percent of budget**. Intergovernmental Professional Services led the growth with a \$934,458, or 37 percent, increase over last year. This is primarily due to one-time pass-through payments related to the "A Regional Coalition for Housing" affordable housing project. Personnel services grew 2.8 percent above last year, due to movement through salary steps and collective bargaining contract increases. An analysis of General Fund expenditures by department can be found on pages 4 and 5.
- **Other General Government Operating Funds** actual expenditures were **2.5 percent higher** than 2015, largely due to increases in the Street Operating Fund. Street Operating Fund expenditures **increased 20.6 percent** due to the hiring of temp employees, increased Utility Services charges for a full year of street light funding in the annexed area, and Capital Outlays. Capital Outlays expenditures in 2016 were for median landscaping improvements, originally budgeted in 2015. The **Equipment Rental Fund** spent less than in 2015, **falling 24.1 percent**, due to lower fuel prices and fewer vehicle replacements in 2016. In aggregate, other general government operating funds finished the third quarter of 2016 at **64.1 percent** of budgeted funds.
- **Water/Sewer Operating Fund** actual expenditures through September were **3.6 percent higher** than in 2015. This was largely because of an increase in the Metro Sewer Charge, as well as expenditures on Other Services. Increases in Other Services were mostly for Professional Services related to the update of the Sewer Master Plan, which was originally budgeted for 2015. In total, the Water/Sewer fund finished September at **76.0 percent of budget**.
- **Surface Water Management Fund** expenditures at the end of the third quarter were **3.0 percent higher** than 2015. This increase is from salaries and benefits. Expenditures for labor were up through the third quarter due to acceleration of the work load for the Cochran Springs project. Surface Water Management's non-personnel services spending was lower by comparison, due largely to higher one-time professional services spending in 2015 on grant funded work, including the Totem Lake/Juanita Creek basin design project and the Local Source Control program. Expenditures through the end of September were **lower than budgeted, at 66.9 percent** of budget.
- **Solid Waste Fund** expenditures through September were **1.0 percent higher** in 2016 than in 2015. Small, planned increases in expenditures for the waste disposal contract was the cause of the overall increase. Expenditures in the fund finished the third quarter at **74.7 percent of budget** which is in line with expected budget expenditures.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	9/30/2015	9/30/2016	% Change	2015	2016	% Change	2015	2016
General Gov't Operating:								
General Fund	60,130,961	62,329,729	3.7%	83,534,621	84,268,524	0.9%	72.0%	74.0%
Other General Gov't Operating Funds	15,038,388	15,412,925	2.5%	25,071,855	24,045,119	-4.1%	60.0%	64.1%
Total General Gov't Operating	75,169,349	77,742,654	3.4%	108,606,476	108,313,643	-0.3%	69.2%	71.8%
Utilities:								
Water/Sewer Operating Fund	16,720,477	17,331,721	3.7%	22,929,938	22,806,507	-0.5%	72.9%	76.0%
Surface Water Management Fund	4,791,383	4,934,733	3.0%	7,877,204	7,372,572	-6.4%	60.8%	66.9%
Solid Waste Fund	12,016,716	12,138,071	1.0%	15,988,325	16,252,408	1.7%	75.2%	74.7%
Total Utilities	33,528,577	34,404,525	2.6%	46,795,467	46,431,487	-0.8%	71.6%	74.1%
Total All Operating Funds	108,697,926	112,147,179	3.2%	155,401,943	154,745,130	-0.4%	69.9%	72.5%

*Budgeted and actual expenditures exclude working capital, operating reserves, capital reserves, and interfund transfers.

General Fund Revenue

- **Sales tax** revenue allocated to the General Fund through the third quarter of 2016 was **5.8 percent higher** than it was in 2015. The bulk of this increase is in the Contracting, Other Retail, and Miscellaneous sectors. A detailed analysis of total sales tax revenue can be found starting on page 5.
- **Property taxes** through September were **3.6 percent higher** than 2015, **at 56.1 percent of budget**. This is in line with expectations for the year due to the timing of payments. The bulk of property tax revenue is received in April and October.
- **Utility tax** collections finished September **2.0 percent lower** compared to results through September 2015. Growth in electric utility taxes were offset by declines in gas and telecommunications. Collections through September were at **71.1 percent** of budget.
- **Other taxes** actual revenues were **6.4 percent higher** than in 2015, and finished the third quarter at **104.2 percent of budget**. This increase is the result of higher than expected gambling revenues from card games, punch boards, and pull tabs.
- **Business license and franchise fees** were **2.0 percent** higher than in 2015 and finished September **at 77.1 percent** of budget.
- Collections from the **revenue generating regulatory license fee** were **22.4 percent higher** than in 2015. Revenues were **at 89.0 percent of budget**. A portion of this growth is one-time revenue, as the City identified businesses operating with-
- out licenses, some of them owing up to three years of back payments.
- **Plan check fees and planning fees** finished the quarter **up 78.5 percent** and **60.1 percent** respectively. **Building, Structural and Equipment permits** were **up 18.7 percent** and **Engineering Services charges** were **up 2.7 percent** compared to 2015. Much of the Planning Fee increases are due to activity at Totem Lake and Kirkland Urban, while the Building permit increase stems from a rush in activity in advance of a building code change in July.
- **Fines and forfeitures** were **down 13.8 percent from 2015** as revenue from traffic and parking infraction penalties decreased due to longer-than-expected staff turnover in the Police Department's Traffic Unit. This revenue source finished September **at 54.1 percent of budget**. Traffic infraction penalties are not received in January, so the budget is collected in 11 months from February to December. Therefore, this category will be closer to budget by year end if past trends hold for the current year.
- **Miscellaneous** revenue finished September **10.9 percent up** from 2015 due to higher interest earnings and increased revenue from rental properties, most notably from the Yuppie Pawn Shop property. This category was **above budget projections at 119.7 percent of budget**.
- Revenue from the voter-approved King County **EMS Levy** was received late in the third quarter. In 2015, this revenue arrived early in the fourth quarter.

General Fund revenues ended the third quarter \$5,964,555 higher than in 2015 largely due to growth in taxes and charges for services.

The General Fund is the largest of the General Government Operating funds. It is primarily tax supported and accounts for basic services such as public safety, parks and recreation, and community development.

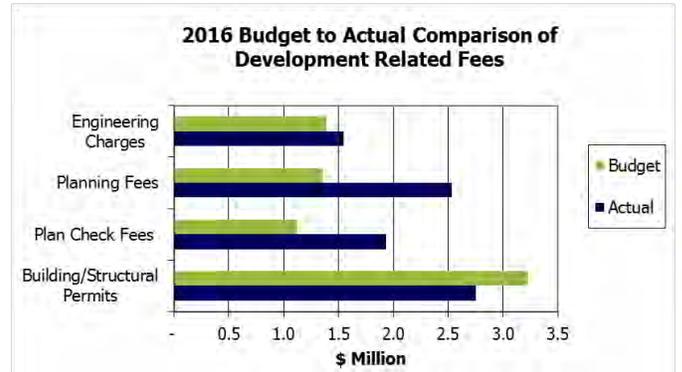
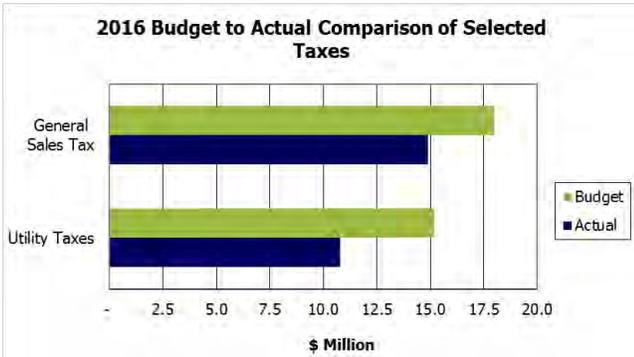
Many significant General Fund revenue sources are economically sensitive, such as sales tax and development-related fees.

About 454 of the City's 592 regular employees are budgeted within the general fund this year.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	9/30/2015	9/30/2016	% Change	2015	2016	% Change	2015	2016
Taxes:								
Retail Sales Tax: General	14,055,342	14,876,520	5.8%	17,963,747	17,963,747	0.0%	78.2%	82.8%
Retail Sales Tax Credit: Annexation	2,704,960	2,803,236	3.6%	3,792,500	3,935,000	3.8%	71.3%	71.2%
Retail Sales Tax: Criminal Justice	1,559,869	1,691,315	8.4%	2,036,370	2,097,461	3.0%	76.6%	80.6%
Property Tax	9,688,892	10,034,797	3.6%	17,456,855	17,886,952	2.5%	55.5%	56.1%
Utility Taxes	11,011,540	10,788,535	-2.0%	15,015,081	15,175,950	1.1%	73.3%	71.1%
Rev Generating Regulatory License	1,718,902	2,103,816	22.4%	2,338,315	2,364,399	1.1%	73.5%	89.0%
Other Taxes	1,050,668	1,118,119	6.4%	1,063,075	1,072,758	0.9%	98.8%	104.2%
Total Taxes	41,790,173	43,416,338	3.9%	59,665,943	60,496,267	1.4%	70.0%	71.8%
Licenses & Permits:								
Building, Structural & Equipment Permits	2,319,890	2,752,567	18.7%	3,219,731	3,227,201	0.2%	72.1%	85.3%
Business Licenses/Franchise Fees	3,461,246	3,529,485	2.0%	4,532,649	4,580,520	1.1%	76.4%	77.1%
Other Licenses & Permits	426,977	447,198	4.7%	444,563	519,801	16.9%	96.0%	86.0%
Total Licenses & Permits	6,208,113	6,729,250	8.4%	8,196,943	8,327,522	1.6%	75.7%	80.8%
Intergovernmental:								
Grants and Federal Entitlements	127,462	144,190	13.1%	162,125	132,000	-18.6%	78.6%	109.2%
State Shared Revenues & Entitlements	848,209	1,004,173	18.4%	1,098,514	1,339,360	21.9%	77.2%	75.0%
EMS	0	924,738	N/A	902,338	920,385	2.0%	N/A	100.5%
Total Intergovernmental	975,671	2,073,101	112.5%	2,162,977	2,391,745	10.6%	45.1%	86.7%
Charges for Services:								
Internal Charges	4,280,907	5,242,560	22.5%	6,159,409	7,116,620	15.5%	69.5%	73.7%
Engineering Services	1,508,918	1,549,845	2.7%	1,400,887	1,391,146	-0.7%	107.7%	111.4%
Plan Check Fee	1,082,374	1,931,771	78.5%	951,346	1,118,880	17.6%	113.8%	172.7%
Planning Fees	1,582,303	2,533,592	60.1%	1,457,383	1,359,493	-6.7%	108.6%	186.4%
Recreation	1,320,666	1,337,177	1.3%	1,215,100	1,215,200	0.0%	108.7%	110.0%
Other Charges for Services	1,503,184	1,481,252	-1.5%	1,980,204	2,093,739	5.7%	75.9%	70.7%
Total Charges for Services	11,278,351	14,076,198	24.8%	13,164,329	14,295,078	8.6%	85.7%	98.5%
Fines & Forfeits	1,376,552	1,185,909	-13.8%	2,189,359	2,191,067	0.1%	62.9%	54.1%
Miscellaneous	1,032,175	1,144,794	10.9%	1,063,767	956,465	-10.1%	97.0%	119.7%
Total Revenues	62,661,034	68,625,589	9.5%	86,443,318	88,658,144	2.6%	72.5%	77.4%
Other Financing Sources:								
Interfund Transfers	0	82,400	N/A	437,228	334,266	-23.5%	N/A	24.7%
Total Other Financing Sources	0	82,400	N/A	437,228	334,266	-23.5%	N/A	24.7%
Total Resources	62,661,034	68,707,989	9.7%	86,880,546	88,992,410	2.4%	72.1%	77.2%

*Budgeted and actual revenues exclude resources forward.

General Fund Revenue *continued*



General Fund Expenditures

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	9/30/2015	9/30/2016	% Change	2015	2016	% Change	2015	2016
Non-Departmental	1,545,417	1,723,105	11.5%	2,943,258	2,372,324	-19.4%	52.5%	72.6%
City Council	361,513	388,786	7.5%	473,818	501,980	5.9%	76.3%	77.5%
City Manager's Office	1,439,168	1,801,360	25.2%	2,438,154	2,275,654	-6.7%	59.0%	79.2%
Municipal Court	1,785,241	1,872,341	4.9%	2,445,952	2,542,644	4.0%	73.0%	73.6%
Human Resources	1,041,098	1,074,988	3.3%	1,492,619	1,549,470	3.8%	69.7%	69.4%
City Attorney's Office	846,863	916,179	8.2%	1,246,620	1,201,014	-3.7%	67.9%	76.3%
Parks & Community Services	5,977,745	5,860,532	-2.0%	8,423,620	8,100,966	-3.8%	71.0%	72.3%
Public Works (General Fund)	3,650,900	4,229,663	15.9%	5,421,184	5,987,242	10.4%	67.3%	70.6%
Finance and Administration	3,433,272	3,535,548	3.0%	4,715,638	4,831,147	2.4%	72.8%	73.2%
Planning & Building	6,008,235	7,019,258	16.8%	8,492,888	8,774,771	3.3%	70.7%	80.0%
Police	18,294,581	17,935,499	-2.0%	25,154,856	25,169,837	0.1%	72.7%	71.3%
Fire	15,746,927	15,972,471	1.4%	20,286,014	20,961,475	3.3%	77.6%	76.2%
Total Expenditures	60,130,961	62,329,729	3.7%	83,534,621	84,268,524	0.9%	72.0%	74.0%
Other Financing Uses:								
Interfund Transfers	2,572,402	2,664,352	3.6%	8,480,717	5,430,801	-36.0%	30.3%	49.1%
Total Other Financing Uses	2,572,402	2,664,352	3.6%	8,480,717	5,430,801	-36.0%	30.3%	49.1%
Total Expenditures & Other Uses	62,703,363	64,994,081	3.7%	92,015,338	89,699,325	-2.5%	68.1%	72.5%

*Budgeted and actual expenditures exclude working capital, operating reserves, and capital reserves.

Comparing 2016 and 2015 expenditures:

In 2016, excluding interfund transfers, General Fund expenditures were **3.7 percent higher** than 2015, and finished the third quarter at **74.0 percent of budget**. Specific reasons for increased expenditures are highlighted below:

- Expenditures for **Non-departmental** were **up 11.5 percent** due to the earlier contribution made to "A Regional Coalition for Housing" in 2016 than in the prior year. This increase is offset by a reduction in contracted professional services for an impact fee study that was completed in 2015. Non-departmental finished the third quarter **at 72.6 percent of budget** spent.
- Actual 2016 expenditures for the **City Council increased 7.5 percent** from 2015. The increase is due to expenditures for the Community Survey, which is conducted in even-numbered years. City Council finished the quarter **at 77.5 percent of budget**, which is normal as annual membership dues are paid primarily at the beginning of the year.
- The **City Manager's Office** finished the third quarter **up 25.2 percent** from 2015 with **79.2 percent of budget** expended. The increase reflects the Deputy City Manager reorganization which occurred in mid-2015 and expenditures for the Police Strategic Plan earlier this year.
- Third quarter expenditures for the **Parks & Community Services Department** were **down 2.0 percent** from 2015 due to a late invoice for the 2013-14 Human Services Pooled Program which was paid early in the 2015-16 biennium, as well as one-time expenses related to the proposed Kirkland ARC Center project that did not continue into 2016. Parks and Community Services finished the third quarter **at 72.3 percent of budget**.

2016 General Fund actual expenditures (excluding "other financing uses") were 3.7 percent higher than they were in 2015.

Continued on page 5

Financial Management Report as of September 30, 2016

- **Public Works - General Fund** expenditures were **15.9 percent above 2015**. Growth in expenditures in Wages and Benefits was due to the addition of four positions for Capital Project Engineering. Overall, Public Works - General Fund finished September at **70.6 percent of budget**.
- **Planning and Building** finished the quarter **16.8 percent above 2015**, with **80.0 percent of the budget** expended. This is largely due to the addition of one-time and ongoing resources to meet workload demands associated with the high levels of development activity in Kirkland.
- Due to a high level of turnover and vacancies in the department, **Police** expenditures ended the quarter **2.0 percent below 2015**, at **71.3 percent of budget**.
- Expenditures for the **Fire Department** finished the third quarter **1.4 percent above 2015**. Fire finished September at **76.2 percent of budget**. Expenses are within expected ranges, and similar to 2015 budget to actual performance. A greater proportion of fire overtime expenses come early in the year, as overtime expenditures to maintain minimum staffing over the winter holidays inflate these costs in January.
- Actual **Interfund Transfers** finished the third quarter **up 3.6 percent** from 2015 due to transfers for City Hall construction debt service, which began in 2016.

Summary of Fire District 41 Funds	
Revenues & Expenditures	
As of September 30, 2016	
Beginning Balance	5,230,000
Investment Interest	105,180
Expenditures:	114,893
Current Balance	\$ 5,220,287

Sales Tax Revenue Analysis

Sales tax revenue through the third quarter was **5.8 percent** higher in 2016 than 2015. This represents a deceleration in the growth rate from the 7.8 mark set in the first half of the year. Increased activity in contracting, other retail, and services composed the bulk of the revenue gains. Sales tax revenue received through September reflects sales activity between November 2015 and July 2016.



Review by business sectors:

- **Contracting** was **up 13.3 percent** through September compared to 2015. Construction collections continue to be strong this year, and lead overall sales tax growth. However, this is a very volatile revenue category and will fluctuate with changing economic conditions.
- Sales tax from the retail sectors was collectively **up 2.1 percent** compared to 2015.
 - ◇ The City's largest business sector—**Auto/gas retail**—was **up 0.7 percent** compared to 2015.
 - ◇ **General merchandise/miscellaneous retail** sector was **down 3.7 percent** in 2016 compared to 2015 due to reduced revenue from major retailers. This category is the most likely to contain impacts from ongoing construction at Kirkland Urban and the Village at Totem Lake.
 - ◇ **Retail eating/drinking** sector performance was **up 4.5 percent** compared to 2015.
- **Other retail** was **up 9.7 percent** compared to 2015. Non store retail, along with health & personal care and furniture, led the growth through September.
- The **services** sector was **up 6.8 percent** compared to 2015, largely due to growth in administrative support and health care services.
- **Wholesale** revenues were **up 3.0 percent** after September 2016.
- The **Miscellaneous** sector was **up 15.7 percent** through September, largely due to real estate and manufacturing growth.
- **Communications** grew **26.9 percent** on the year. This is due to a one time refund that was paid to selected taxpayers in May of 2015.

Regional Sales Tax

Bellevue was up 6.8 percent, Redmond was up 40.3 percent through September 2016 compared to September 2015.

King County

King County's sales tax receipts were up 6.2 percent through the end of the third quarter compared to 2015.

Business Sector Group	YTD		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2015	2016
Services	1,886,747	2,015,591	128,844	6.8%	13.4%	13.5%
Contracting	2,142,346	2,426,764	284,418	13.3%	15.2%	16.3%
Communications	316,190	401,231	85,041	26.9%	2.2%	2.7%
Auto/Gas Retail	3,519,220	3,543,484	24,264	0.7%	25.0%	23.8%
Gen Merch/Misc Retail	1,645,946	1,585,559	(60,387)	-3.7%	11.7%	10.7%
Retail Eating/Drinking	1,160,066	1,189,151	29,085	2.5%	8.3%	8.0%
Other Retail	1,878,522	2,061,338	182,816	9.7%	13.4%	13.9%
Wholesale	704,766	725,780	21,014	3.0%	5.0%	4.9%
Miscellaneous	801,539	927,622	126,083	15.7%	5.7%	6.2%
Total	14,055,342	14,876,520	821,178	5.8%	100%	100%

Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to "North American Industry Classification System" or NAICS). Nine business sector groupings are used to compare 2015 and 2016 sales tax receipts in the table to the left.

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2015	2016		
January	1,406,662	1,580,669	174,007	12.4%
February	1,783,689	1,958,878	175,189	9.8%
March	1,391,418	1,495,268	103,850	7.5%
April	1,323,936	1,440,078	116,142	8.8%
May	1,599,980	1,675,945	75,965	4.7%
June	1,480,647	1,533,895	53,248	3.6%
July	1,573,925	1,674,432	100,507	6.4%
August	1,715,342	1,769,207	53,865	3.1%
September	1,779,742	1,748,148	(31,594)	-1.8%
Total	14,055,342	14,876,520	821,178	5.8%

When analyzing monthly sales tax receipts, there are two items of special note: First, most businesses remit their sales tax collections to the Washington State Department of Revenue on a monthly basis. Small businesses only have to remit their sales tax collections either quarterly or annually, which can create anomalies when comparing the same month between two years. Second, for those businesses which remit sales tax monthly, there is a two month lag from the time that sales tax is collected to the time it is distributed to the City.

- Sales tax revenues through the third quarter of 2016 were 5.8 percent higher than the third quarter of 2015. Growth has slowed as the year has progressed. Cumulative revenues through the first and second quarters were up 9.9 and 7.8 percent over 2015, respectively.
- Sales tax revenue in September 2016 was down 1.8 percent compared to the same month in 2015. This ended a trend of month-over-month growth that began in September 2015.
- Increases have been led by growth sectors that tend to be volatile and will fluctuate with changing economic conditions, particularly Contracting.
- The City's largest business sector—Auto/Gas Retail—continues to see very slow growth and has trailed behind citywide growth throughout the year.

Kirkland's sales tax base is further broken down by business district (according to geographic area), as well as "unassigned or no district" for small businesses and businesses with no physical presence in Kirkland.

Comparing to the same period last year:

Totem Lake, which accounted for 27.7 percent of the total sales tax receipts through the third quarter, was **down 0.5 percent** from 2015 due to declining results in the automotive/gas retail and hotel/motel sectors. This was mitigated by positive growth in health care. Some of this decline can also be attributed to the closure of businesses during redevelopment at Totem Lake. About 60% of this business district's revenue comes from the auto/gas retail sector.

NE 85th Street, which made up 13.4 percent of the total sales tax receipts in 2016, was **up 1.6 percent** compared to 2015. This area's receipts grew due to improving auto retail and retail eating/drinking sales. General retail, which is the second largest sector, fell 0.2 percent on the year. Auto and general retail contribute 82.3 percent of this business district's revenue.

Downtown, which accounted for 5.3 percent sales tax receipts through the third quarter, was **down 11.5 percent**. This is primarily due to the closure of businesses during the

Kirkland Urban redevelopment. Sectors seeing the sharpest declines include information and retail eating/drinking.

Carillon Point & Yarrow Bay, which accounted for 1.9 percent of the total sales tax receipts, were **down 0.7 percent** compared to 2015. About 66.0 percent of this business district's revenue came from retail eating/drinking and accommodations.

Houghton & Bridle Trails, which has produced 2.2 percent of the total sales tax receipts in 2016, were **up 1.8 percent** due to an increase in arts, entertainment and recreation, which offset a decrease in several other categories.

Juanita, which generated 1.3 percent of the total 2016 sales tax receipts, was **up 1.4 percent** compared to 2015. Increases in retail eating/drinking offset declines in several other sectors.

North Juanita, Kingsgate, & Finn Hill accounted for 2.6 percent of the total sales tax receipts in 2016 and were **up 0.6 percent** from 2015, with growth in Kingsgate and North Juanita offsetting a decline in Finn Hill. The former two districts grew by 4.1 and 0.4 percent, respectively, while the latter declined by 4.4 percent. The overall revenue increase can be attributed to increasing activity in financial services and real estate in these business districts.

Year-to-date tax receipts by business district for 2015 and 2016 are compared in the table on the next page.

Financial Management Report as of September 30, 2016

When reviewing sales tax receipts by business district, it is important to be aware that 45.6 percent of the revenues received through the third quarter of 2016 were in the "unassigned or no district" category largely due to contracting and other revenue, which includes revenue from internet, catalog sales and other businesses located outside of the City. This percentage has grown in recent years as internet sales have grown in volume.

OFFICE VACANCIES:

According to the latest report from CB Richard Ellis Real Estate Services, Kirkland's office vacancy rate in the third quarter of 2016 held at 3.6 percent, significantly lower than the Puget Sound total vacancy rate of 10.8 percent. Overall, the Eastside is one of the stronger office markets in the Puget Sound region, with an office vacancy rate of 10.1 percent, just above downtown Seattle's vacancy rate of 9.5 percent.

The region currently has 6.9 million square feet of office space under construction. This includes projects on the Eastside, with over 1.6 million square feet currently being built, including 390,000 square feet in Kirkland Urban.

When complete, this development will increase office space supply by 24 percent. Two tech companies—Wave Broadband and Tableau Software—have pre-leased over 40% of this new space.

LODGING TAX REVENUE:

Lodging tax revenue grew compared to 2015, finishing the quarter up 2.1 percent, an increase of \$4,447. Revenues through the third quarter finished near expectations at 73.6 percent of budget.

Business District	YTD		Dollar Change	Percent Change	Percent of Total	
	2015	2016			2015	2016
Totem Lake	4,150,168	4,128,045	(22,123)	-0.5%	29.5%	27.7%
NE 85th St	1,963,360	1,995,699	32,339	1.6%	14.0%	13.4%
Downtown	885,659	783,863	(101,796)	-11.5%	6.3%	5.3%
Carillon Pt/Yarrow Bay	283,940	281,848	(2,092)	-0.7%	2.0%	1.9%
Houghton & Bridle Trails	320,930	326,557	5,627	1.8%	2.3%	2.2%
Juanita	193,983	196,608	2,626	1.4%	1.4%	1.3%
Kingsgate	119,020	124,314	5,294	4.4%	0.8%	0.8%
North Juanita	188,810	189,220	410	0.2%	1.3%	1.3%
Finn Hill	71,007	67,918	(3,089)	-4.4%	0.5%	0.5%
Unassigned or No District:						
Contracting	2,123,400	2,403,494	280,094	13.2%	15.1%	16.2%
Other	3,755,064	4,378,955	623,890	16.6%	26.7%	29.4%
Total	14,055,342	14,876,520	821,178	5.8%	100.0%	100.0%

Sales Tax Revenue Outlook

After a fast start to 2016, revenue growth has steadily slowed through the third quarter. Year to date growth over the three quarters of the year has downshifted from a 7.8 percent pace through July to a 5.8 percent rate in September. The reduced pace was driven by continued slow growth in automotive sales in July and August and a dip in contracting during the month of September. Staff will continue to monitor and report on emerging trends in the monthly Sales Tax Report.

Economic Environment Update

The **Washington State Economic & Revenue Council** monthly update reports continued job growth, adding 2,900 nonfarm jobs in August 2016. The preliminary November forecast for Washington projects that the annual job growth rate in 2016 will be 2.9 percent. However, it also anticipates that growth will slow to 1.7 percent in 2017 and continue to decelerate in the years ahead, falling to 1.0 percent in 2021.

The Conference Board's **Consumer Confidence Index** decreased from 104.1 in September to 98.6 in October 2016, the latest available data at the time of this publication. A rating of 100 equals the 1985 consumer confidence level. This change was due to reports that consumers feel less positive about current business conditions, the short-term outlook, and the labor market.

Unemployment Rates increased at the National level, up to 5.0 percent in September from 4.9 percent in August. Unemployment also rose from 3.9 to 4.0 percent in King County and from 3.3 to 3.5 percent in Kirkland. However, Washington State did not follow this trend as a whole, dropping from 5.7 percent in August to 5.1 percent in September to reach its low point for the year to date.

The **Western Washington Purchasing Manager Index** was at 53.9 in October indicating growing activity in September 2016. An index reading greater than 50 signals an economic expansion. This is an improvement of 1.7 points over September's reading of 52.2. The October 2016 report presents the latest available data at the time of publication.

Local **building permitting activity** has increased 32.8 percent compared to September 2015. The increase is primarily due to commercial development, which is up 159.3 percent from this time last year. Totem Lake and Kirkland Urban development are driving this increase. Multi-family/mixed use development has also increased 56.0 percent. The valuation of single family home construction is down 7.3 percent when compared to 2015, but activity has recovered since the second quarter report when year-to-date activity was instead down 15.7 percent.

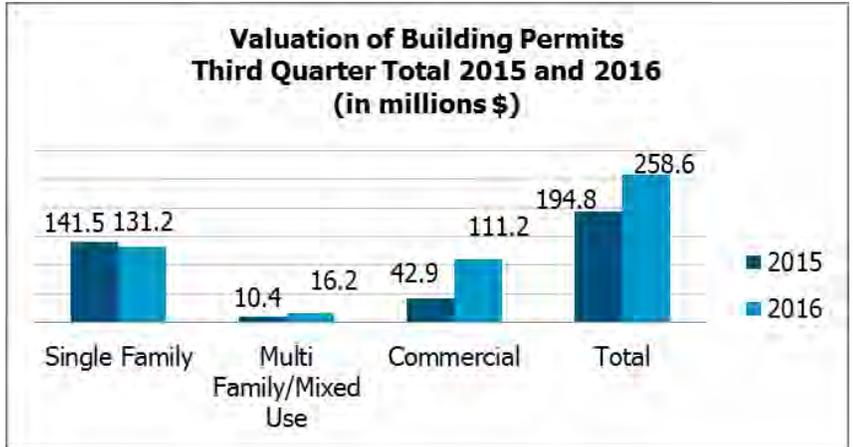
(Continued on page 8)

Economic Environment Update *continued*

The net effect is a year-to-date growth of \$63.8 million in development valuation.

Prices in the **housing market** continued to increase in the third quarter of 2016 with the Case-Shiller housing index for the Seattle metro area up to 204.74, increasing the gap above the pre-recession peak index score of 192.3 set in July 2007. There were 29,100 new housing permits issued in August 2016 according to the Washington State Economic and Revenue Council, the fewest of any month to date in 2016.

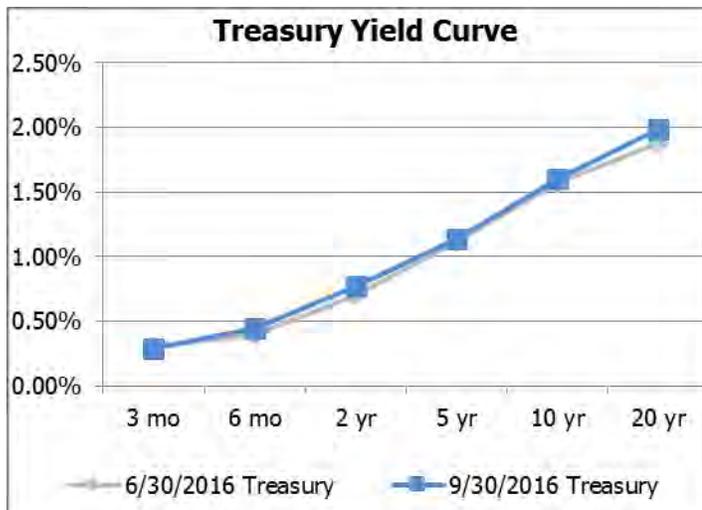
Inflation in the Seattle area is high relative to the national rate. In August 2016, the Seattle core CPI increased 2.1 percent compared to the previous year, while the national CPI was at 0.7 percent year-to-year growth.



Investment Report

MARKET OVERVIEW

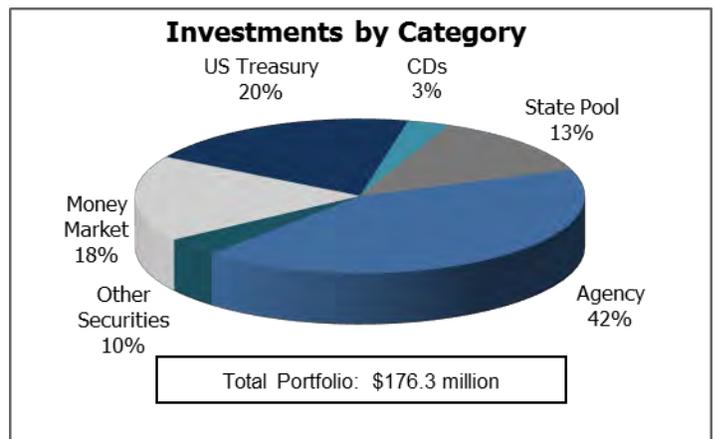
Economic growth picked up some speed in the third quarter of 2016. However, it continues to be characterized as slow and steady. The Fed Funds rate has remained at 0.25 to 0.50 percent since December 2015 and is now expected to be raised 0.25 percent in December of this year. The yield curve remained relatively unchanged this quarter, rising only slightly on short and long ends of the curve.



CITY PORTFOLIO

The primary objectives for the City of Kirkland’s investment activities are: legality, safety, liquidity and yield. Additionally, the City diversifies its investments according to established maximum allowable exposure limits so that reliance on any one issuer will not place an undue financial burden on the City.

The City’s portfolio decreased \$7.1 million in the third quarter of 2016, moving from \$183.4 million on June 30, 2016 to \$176.3 million on September 30, 2016. The decrease in the portfolio is related in part to City Hall remodel expenditures and to the normal cash flows of the third quarter, as the as the second half of property taxes is not received until the end of October and early November.



Diversification

The City’s current investment portfolio is composed of Government Sponsored Enterprises (GSEs) bonds, US Government Obligations, State and Local Government bonds, Bank CDs, Money Market Account and the State Investment Pool. City investment procedures allow for 100% of the portfolio to be invested in U.S. Treasury or Federal Government obligations.

Liquidity

The target duration for the City’s portfolio is based on the 0-5 year U.S. Treasury. The average maturity of the City’s investment portfolio increased from 1.38 years on June 30, 2016 to 1.44 years on September 30, 2016 as maturing securities were replaced by securities with longer duration.

Financial Management Report as of September 30, 2016

Investment Report *continued*

2016 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

The economic outlook and investment strategy remains unchanged from the previous quarter. While the outlook for growth in the U.S. economy looks weaker now than it did three months ago, it is projected to continue growing at a slower pace. The U.S. economy is expected to grow at an annual rate of 1.5 percent in 2016 and 2.3 percent in 2017. CPI inflation is expected to average 1.6 percent in 2016 and 2.3 percent in 2017. The unemployment rate is expected to average 4.8 percent in 2016 and fall to 4.6 percent in 2017. The Fed Funds rate, currently at 0.50%, is expected to rise one time in December 2016 to 0.75%.

The City's investment advisor, Government Portfolio Advisors (GPA) is currently recommending that the duration of the portfolio be increased slightly in relation to the benchmark. They believe that the Fed may be slow to raise Fed Funds and will recommend security purchases when opportunities to capture higher returns are available.

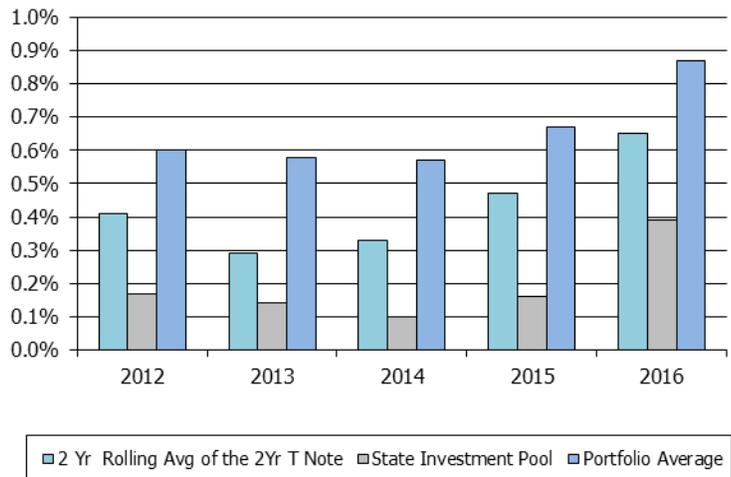
The State Pool is currently at 0.47%, remaining steady as short term rates are relatively unchanging. Rates will continue to remain low as the Fed Funds rate remains at 0.25 to 0.50 percent. Total estimated investment income for 2016 is \$1,200,000.

Yield

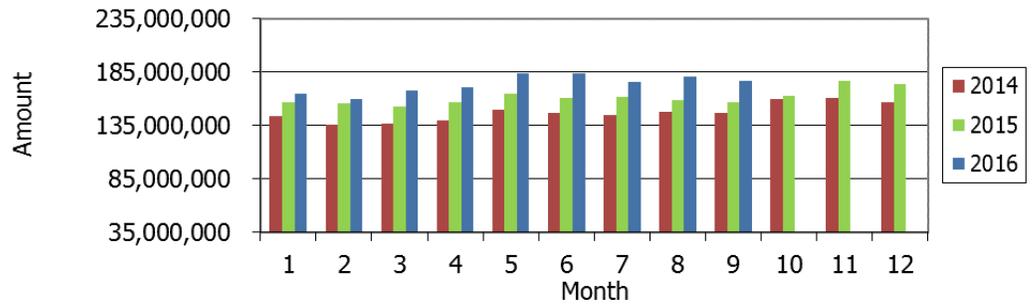
The City Portfolio yield to maturity increased from 0.91 percent on June 30, 2016 to 0.96 percent on September 30, 2016. Through September 30, 2016, the City's annual average yield to maturity also increased to 0.87 percent. The City's portfolio benchmark is the range between the 90 day Treasury Bill and the 2 year rolling average of the 2 year Treasury Note. This benchmark is used as it is reflective of the maturity guidelines required in the Investment Policy adopted by City Council. The City's portfolio outperformed both the 90 day T Bill and the 2 year rolling average of the 2 year Treasury note, which was 0.69 percent on September 30, 2016.

The City's implementation of a more active investment strategy due to contracting with an investment advisor has resulted in increasing portfolio yields. The City's portfolio's rate of return is rising with the rise in interest rates and is keeping ahead of the benchmark rates as seen in the adjacent graph.

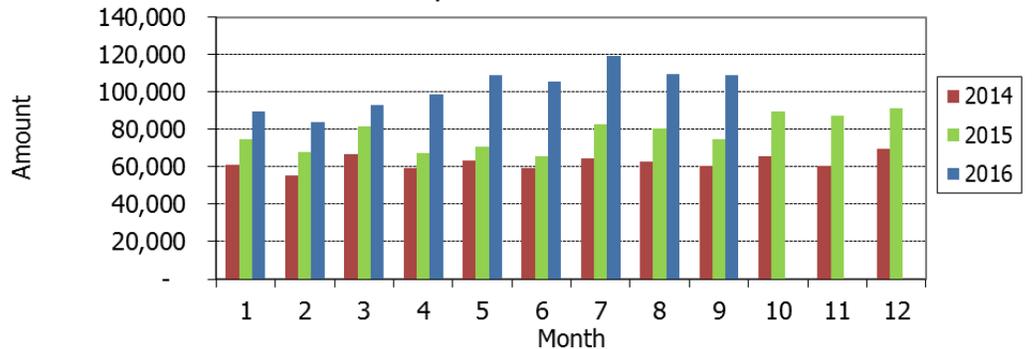
Investment Interest Rate Comparisons



Portfolio Size



Monthly Interest Earned



RESERVES are an important indicator of the City's fiscal health and effectively represent "savings accounts" (ACCOUNTS) established to meet unforeseen budgetary needs (general purpose reserves) or are dedicated to a specific purpose. Ending balances in the table below are based on budget. Actual balances in some reserves may vary based on revenue performance (e.g., Excise Tax and Impact Fees).

Reserve Analysis

- Planned contributions to reserves in 2013-2014 and 2015-2016 allowed the City to replenish many of the general purpose reserves to target levels by the end of 2016, as indicated in the table below. The City's fiscal policy is to set at least 1 percent of the General Fund adopted budget toward reserve replenishment toward 80 percent of the target level (100 percent for the Revenue Stabilization Reserve). Unplanned amounts available at the end of a biennium should help replenish to target faster, which is what happened at the end of 2014 and is expected again in 2016. Adequate fund balance and reserve levels are a necessary component of financial management strategy and a key factor in the external agencies' measurement of the City's financial strength (Standard and Poor's: AAA and Moody's Aa2).

GENERAL CAPITAL RESERVES

- Real estate activity has been growing significantly over the last few years and 2015 reached an all-time high in **Real Estate Excise Tax (REET)** collections. However, **2016 is 24.7 percent ahead of third quarter 2015**. The current ending balances do not reflect this revenue performance. They instead incorporate 2015-2016 uses in the 2015-2020 Capital Improvement Plan as adopted in December 2015 and budgeted rather than actual revenues.
- Impact fees (Parks and Transportation)** are a reflection of development activity, which remains strong. However, 2016 Park revenue is 35.5% behind 2015 due to revenue received from a single large development in the first quarter of 2015. Normalizing for this event, revenue is up 17.4% from last year. Transportation is 4.9 percent ahead.
- The City adopted a new Capital Improvement Program (CIP) for 2015-2020 in December 2015, which made significant uses of REET and Impact Fees in the current budget period, as well as future years in response to projects identified in several long-range master plans that were adopted in 2015. The balances below were adjusted during the CIP adoption process to fund capital projects that are budgeted during this biennium.

General Government & Utility Reserves Targets Summary

Reserves	Actual 2015 Beginning Balance	Adopted 2016 Ending Balance	Revised 2016 Ending Balance	2015-16 Target	Revised Over (Under) Target
GENERAL PURPOSE RESERVES WITH TARGETS					
General Fund Reserves:					
General Fund Contingency	50,000	50,000	50,000	50,000	-
General Oper. Reserve (Rainy Day)	2,806,513	4,803,388	4,803,388	4,803,388	-
Revenue Stabilization Reserve	2,570,090	2,848,220	2,848,220	2,848,220	-
Building & Property Reserve	571,579	600,000	533,000	600,000	(67,000)
Council Special Projects Reserve	250,000	250,000	119,000	250,000	(131,000)
Contingency	2,426,425	4,036,425	4,036,425	5,512,218	(1,475,793)
General Capital Contingency	3,768,012	4,961,855	4,961,855	5,701,001	(739,146)
General Purpose Reserves with Targets	12,442,619	17,549,888	17,351,888	19,764,827	(2,412,939)
ALL OTHER RESERVES WITH TARGETS					
General Fund Reserves:					
Litigation Reserve	150,000	150,000	150,000	150,000	-
Firefighter's Pension Reserve	1,493,687	1,225,835	1,225,835	933,405	292,430
Health Benefits Fund:					
Claims Reserve	2,058,311	2,058,311	2,058,311	2,058,311	-
Rate Stabilization Reserve	1,000,000	1,000,000	1,000,000	1,000,000	-
Excise Tax Capital Improvement:					
REET 1	5,843,876	8,697,813	5,213,854	1,732,329	3,481,525
REET 2	4,888,788	7,146,044	6,000,344	2,436,255	3,564,089
Water/Sewer Operating Reserve:					
Water/Sewer Capital Contingency:	1,107,600	613,300	613,300	613,300	-
Surface Water Operating Reserve:	706,364	893,306	893,306	893,306	-
Surface Water Capital Contingency:	845,163	391,380	391,380	391,380	-
Other Reserves with Targets	20,508,260	24,835,921	20,206,262	12,868,218	7,338,044
Reserves without Targets	44,926,198	58,197,292	48,308,247	n/a	n/a
Total Reserves	77,877,077	100,583,101	85,866,397	n/a	n/a

The target comparison reflects revised ending balances to the targets established in the budget process for those reserves with targets.

General Purpose reserves are funded from general revenue and may be used for any general government function.

All Other Reserves with Targets have restrictions for use either from the funding source or by Council-directed policy (such as the Litigation Reserve).

The summary to the right details all Council authorized uses and additions in the 2015-16 biennium.

USES AND ADDITIONS HIGHLIGHTS

RESERVE	AMOUNT	DESCRIPTION
---------	--------	-------------

2015-16 Council Authorized Uses

Prior 2015-2016 Uses	\$14,797,781	
Council Special Projects	\$15,000	Public Communications Study

2015-16 Council Authorized Additions

Prior 2015 Additions	\$96,077	
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Financial Management Report as of September 30, 2016 ATTACHMENT D

General Fund and Contingency reserves are funded from general purpose revenue and are governed by Council-adopted policies.

Special Purpose reserves reflect both restricted and dedicated revenue for specific purpose, as well as general revenue set aside for specific purposes.

General Capital Reserves provide the City the ability to respond to unexpected changes in costs and accumulate funds for future projects. It is funded from both general revenue and restricted revenue.

Utility reserves are funded from utility rates and provide the utilities with the ability to respond to unexpected costs and accumulate funds for future replacement projects.

Internal service funds are funded by charges to operating departments. They provide for the accumulation of funds for replacement of equipment, as well as the ability to respond to unexpected costs.

Reserves	Description	Est. 2015	Adopted	Additional	Revised
		Beginning Balance	2016 Ending Balance*	Authorized Uses/Additions	2016 Ending Balance
GENERAL FUND/CONTINGENCY					
General Fund Reserves:					
General Fund Contingency	Unexpected General Fund expenditures	50,000	50,000		50,000
General Oper. (Rainy Day)	Unforeseen revenues/temporary events	2,806,513	4,803,388		4,803,388
Revenue Stabilization	Temporary revenue shortfalls	2,570,090	2,848,220		2,848,220
Building & Property	Property-related transactions	571,579	600,000	(67,000)	533,000
Council Special Projects	One-time special projects	250,000	250,000	(131,000)	119,000
Contingency	Unforeseen expenditures	2,426,425	4,036,425		4,036,425
Total General Fund/Contingency		8,674,607	12,588,033	(198,000)	12,390,033
SPECIAL PURPOSE RESERVES					
General Fund Reserves:					
Litigation	Outside counsel costs contingency	150,000	150,000		150,000
Labor Relations	Labor negotiation costs contingency	74,928	55,312		55,312
Police Equipment	Equipment funded from seized property	50,284	75,969		75,969
Fire OT & Equipment	Contingency for overtime and equipment	200,000	200,000		200,000
LEOFF 1 Police	Police long-term care benefits	618,079	618,079		618,079
Facilities Expansion	Special facilities expansions	150,982	50,663		50,663
Development Services	Revenue and staffing stabilization	2,572,520	2,612,670		2,612,670
Development Svcs. Technology	Permit system replacement	1,040,324	1,356,175		1,356,175
Tour Dock	Dock repairs	206,271	273,095	(21,500)	251,595
Tree Ordinance	Replacement trees program	56,267	65,488		65,488
Revolving/Donation Accounts	Fees/Donations for specific purposes	940,331	943,300	(25,000)	918,300
Lodging Tax Fund	Tourism program and facilities	310,420	190,548	(119,549)	70,999
Cemetery Improvement	Cemetery improvements/debt service	736,215	767,040	2,568	769,608
Off-Street Parking	Downtown parking improvements	259,161	391,613	(285,500)	106,113
Fire Equipment Life Cycle	20-year fire equipment costs	418,326	896,704		896,704
Police Equipment Life Cycle	20-year police equipment costs	343,114	806,243		806,243
Technology Equipment Life Cycle	20-year technology equipment costs	663,600	1,265,117		1,265,117
Firefighter's Pension	Long-term care/pension benefits	1,493,687	1,225,835		1,225,835
Total Special Purpose Reserves		10,284,509	11,943,851	(448,981)	11,494,870
GENERAL CAPITAL RESERVES					
Excise Tax Capital Improvement:					
REET 1	Parks/transportation/facilities projects, parks debt service	5,843,876	8,697,813	(3,483,959)	5,213,854
REET 2	Transportation and other capital projects	4,888,788	7,146,044	(1,145,700)	6,000,344
Impact Fees					
Transportation	Transportation capacity projects	3,663,839	4,227,671	(2,300,900)	1,926,771
Parks	Parks capacity projects	1,727,746	2,007,936	(484,599)	1,523,337
Street Improvement	Street improvements	995,958	995,958	(995,958)	0
General Capital Contingency	Changes to General capital projects	3,768,012	4,961,855		4,961,855
Total General Capital Reserves		20,888,219	28,037,277	(8,411,116)	19,626,161
UTILITY RESERVES					
Water/Sewer Utility:					
Water/Sewer Operating	Operating contingency	2,414,471	2,659,932		2,659,932
Water/Sewer Debt Service	Debt service	498,591	495,390	(460,000)	35,390
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	1,107,600	613,300		613,300
Water/Sewer Construction	Replacement/re-prioritized/new projects	10,051,937	17,664,869	(4,127,036)	13,537,833
Surface Water Utility:					
Surface Water Operating	Operating contingency	706,364	893,306		893,306
Surface Water Capital Contingency	Changes to Surface Water capital projects	845,163	391,380		391,380
Surface Water Construction	Trans. related surface water projects	5,656,579	7,597,175	(759,300)	6,837,875
Total Utility Reserves		21,280,705	30,315,352	(5,346,336)	24,969,016
INTERNAL SERVICE FUND RESERVES					
Health Benefits:					
Claims	Health benefits self insurance claims	2,058,311	2,058,311		2,058,311
Rate Stabilization	Rate stabilization	1,000,000	1,000,000		1,000,000
Equipment Rental:					
Vehicle	Vehicle replacements	10,068,738	8,583,511	22,829	8,606,340
Radio	Radio replacements	59,463	74,764		74,764
Information Technology:					
PC Replacement	PC equipment replacements	459,063	518,292		518,292
Major Systems Replacement	Major technology systems replacement	656,200	1,165,089	135,200	1,300,289
Facilities Maintenance:					
Operating	Unforeseen operating costs	550,000	550,000		550,000
Facilities Sinking Fund	20-year facility life cycle costs	1,897,262	3,748,621	(470,300)	3,278,321
Total Internal Service Fund Reserves		16,749,037	17,698,588	(312,271)	17,386,317
Grand Total		77,877,077	100,583,101	(14,716,704)	85,866,397

*Adjusted for actual cash balances in April 2016



The Financial Management Report (FMR) is a high-level status report on the City's financial condition that is produced quarterly.

- It provides a **summary budget to actual and year over year comparisons** for year-to-date revenues and expenditures for all operating funds.
 - The **Sales Tax Revenue Analysis** report takes a closer look at one of the City's larger and most economically sensitive revenue sources.
 - **Economic environment** information provides a brief outlook at the key economic indicators for the Eastside and Kirkland such as office vacancies, residential housing prices/sales, development activity, inflation and unemployment.
 - The **Investment Summary** report includes a brief market overview, a snapshot of the City's investment portfolio, and the City's year-to-date investment performance.
 - The **Reserve Summary** report highlights the uses of and additions to the City's reserves in the current year as well as the projected ending reserve balance relative to each reserve's target amount.
- Tracey Dunlap, Deputy City Manager
 - Michael Olson, Director of Finance & Administration
 - Tom Mikesell, Financial Planning Manager
 - Neil Kruse, Senior Financial Analyst
 - George Dugdale, Senior Financial Analyst
 - Elijah Panci, Budget Analyst
 - Doug Honma-Crane, Budget Analyst



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Economic Environment Update References:

- The Conference Board Consumer Confidence Index Press Release, September 2016
- Carol A. Kujawa, MA, A.P.P., *ISM-Western Washington, Inc. Report On Business*, Institute for Supply Management-Western Washington, September 2016
- Washington State Economic & Revenue Forecast Council, *Preliminary Quarterly Economic & Revenue Forecast*, November 2016 and *Monthly Economic & Revenue Update*, October 2016.
- CB Richard Ellis Real Estate Services, Market View Puget Sound, Second and Third Quarter 2016
- S&P/Case-Shiller Seattle Home Price Index
- United States Bureau of Labor Statistics
- United States Energy Information Administration
- Washington State Department of Revenue
- King County Office of Economic & Financial Analysis, *EconPulse*, Third Quarter 2016
- City of Kirkland Planning & Building Department
- City of Kirkland Finance & Administration Department